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The Dynamics of Management Accounting Change in the Jordanian Customs Organization as Influenced by NPM Reforms: Institutional Pressures

By

NIZAR MOHAMMAD HUSSEIN ALSHARARI

**A Thesis Submitted To the Durham University for the Degree
of '*Doctor of Philosophy*' in Accounting and Finance**

April 2013

United Kingdom

ABSTRACT

Main Purpose: *This study aims to explain the processes of management accounting change in the Jordanian Customs Organization (JCO) as well as in the Jordanian public sector within its socio-economic contexts, as influenced by NPM ideas and institutional pressures. It focuses on the regulative way in which new budgeting systems together with the managing-for-results approach were implemented throughout three levels of institutional analysis: political and economic level, organizational field level and organizational level. It also highlights the interaction process between these three levels from one side, and between management accounting and organizational change from another side.*

Design/methodology/approach: *The study presents the results of an interpretive case-study (JCO) in the public sector. It adopts six steps of qualitative research design and uses triangulation of data collection methods including interviews, observations, and documents and archival records. It is also inspired by a contextual framework (Pettigrew 1987), since it has a holistic view that comprises different perspectives. Particularly, it draws on theoretical integration by synthesizing three recent approaches, respectively: Dillard et al's (2004) framework inspired NIS for external processes and pressures; Burns and Scapens' (2000) framework inspired OIE for internal processes of change; and Hardy's (1996) framework inspired power and politics mobilization.*

Key Findings: *The study recognizes that management accounting change was carried out in the 'from-top-to-bottom' level of institutional analysis, which confirms the 'path-dependent' and evolutionary nature of the change. It confirms the evidence that other factors, beyond economic factors, may also play an influential role in the implementation of management accounting change. It also concludes that there was a radical change of management accounting systems in the JCO case-study, which was not only a decorative innovation in management accounting but was also represented in the working practices. The study also confirms that management accounting is not a static phenomenon but one that changes over time to reflect new systems and practices. Management accounting change is a part of organizational change; hence management accounting rules and routines are part and parcel of organizational rules and routines.*

Research implications: *The study has important implications for the ways in which change dynamics can emerge, diffuse and be implemented at three levels of institutional analysis. It provides a new contextual framework to study these dynamics based on an intensive and holistic view of an interpretive case-study in accordance with qualitative research-based 'Convincingness Criteria'. It also explains the interaction between the 'external' origins and 'internal' accounts, which identified that management accounting is both shaped by, and shaping, wider socio-economic and political processes. This broad sensitivity to the nature of management accounting has important implications for the ways of studying management accounting change. For example, changes in the political and economic level, particularly with respect to the introduction of the National Agenda, have resulted in changes in structures and systems at the organizational level, particularly regarding budgeting systems.*

Originality/value: *The study contributes to both MA literature and institutional theory by providing further understanding and 'thick explanation' of the dynamics of management accounting change in the Jordanian public sector: i.e. explaining the implications of the contextual framework for studying management accounting change; overcoming some of the limitations of NIS and OIE; and clarifying the necessity for bridge-building between the institutional theories to expand their level of analysis.*

Keywords: *Management Accounting Change; Organizational Change; NPM; Managing for Results Approach; Institutional Theory; Contextual Framework*

List of the Thesis Works Submitted to European Conferences

1. Nizar Alsharari, Rob Dixon and Jim Haslam, “**Management Accounting Change and Stability in the Jordanian Public Sector: Critical Review and Contextual Framework**”, Accounting and Audit Convergence Convention, AAC 2011, Romania: The Babes-Bolyai University Business School, (**Chapter 2**).
2. Nizar Alsharari, “**The Processes of Management Accounting Change: Interpretive Case-Study**”, Northern Advanced Research Training Initiative, NARTI 2012, 8th Annual Doctoral Colloquium, UK: Newcastle University Business School, (**Chapter 4**).
3. Nizar Alsharari, “**Durham Islamic Finance Program**”, Durham Islamic Finance Summer School, DIFSS 2012, Jointly organized by the Durham University Business School and School of Government and International Affairs, UK: Durham University.
4. Nizar Alsharari, Rob Dixon And Jim Haslam, “**Toward Contextual Framework for Conceptualizing Management Accounting Change and Stability: Evidence from the Jordanian Public Sector**”, European Network for Research on Organizational and Accounting Change, ENROAC 2012, 6th Doctoral Summer School in Management Accounting, Italy: Jointly organized by the Universities of Manchester and Siena, (**Chapter 3**).
5. Nizar Alsharari, “**Social Innovation, New Business Models and Management Accounting**”, 6th ENROAC Summer School 2012, Italy: University of Siena.
6. Nizar Alsharari, Rob Dixon and Jim Haslam, “**Management Accounting Change and Stability in the Jordanian Customs Organization: Institutionalism and Isomorphism Pressures**”, Management Accounting Research Group Conference, MARG 2012, UK: Aston Business School (**Chapter 5 & 6**).
7. Nizar Alsharari, “**Narrative Analysis**” A Workshop at Northern Advanced Research Training Initiative, NARTI 2013, UK: Northumbria University: Newcastle Business School, (**Chapter 7**).

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List of Frequent Abbreviations

ABC	Activity-Based Costing
ABM	Activity-Based Management
BSC	Balanced Scorecard
COA	Chart of Accounts
COF	Organizational Field Criteria
CPE	Societal Level Criteria
ENP	European Neighborhood Policy
FRP I	Fiscal Reform Project I
FRP II	Fiscal Reform Project II
GFMIS	Government Financial Management Information System
GTZ	German Technical Cooperation
IMF	International Monetary Fund
JCFS	Jordan Customs Financial System
JCO	Jordanian Customs Organization
JIT	Just In Time System
KAA	King Abdullah II Award for Excellence
KACE	King Abdullah II Centre for Excellence
MA	Management Accounting
MAC	Management Accounting Change
MAPs	Management Accounting Practices
MAS(s)	Management Accounting System(s)
MFR	Managing For Results Approach
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
NA	National Agenda
NIE	New Institutional Economics
NIS	New Institutional Sociology
NPM	New Public Management
OF	Organizational Field Level
OIE	Old Institutional Economics
PE	Political and Economic Level
PFM	Public Finance Management
PFM	Public Financial Management
PI	Innovator Practices
PLA	Late Adopters Practices
PMF	Performance Measurement Framework
ROB	Results-Oriented Budget
ROG	Results-Oriented Government
SMA	Strategic Management Accounting
ST	Structuration Theory
TCE	Transaction Cost Economics
TQM	Total Quality Management
USAID	United States Agency for International Development

Declaration

I hereby declare that the material contained in the thesis has not previously been submitted for a degree in this or any other institution. I further declare that this thesis is exclusively based on my own research.

Nizar M. Alsharari

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“The copyright of this thesis rests with the author. No quotation from it should be published without the author's prior written consent and information derived from it should be acknowledged”.

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” قُلْ إِنَّ الْأَمْرَ كُلَّهُ لِلَّهِ ” - سورة آل عمران آية 154

¹ Translated from Holly Quran by Sahih International, see <http://quran.com/34>:

قول الله تعالى لنبيه داود ” أَنْ اْعْمَلْ سَابِغَاتٍ وَقَدِّرْ فِي السَّرْدِ وَاعْمَلُوا صَالِحًا إِنِّي بِمَا تَعْمَلُونَ بَصِيرٌ “ . (القرآن الكريم: سورة سبأ- آية 11).

Dedication

*To My Dearest Mother (Samiha);
To the Soul of My Father Mohammad (Allah's Mercy him);
To My Wife (Amani);
To My Daughter (Sumaia);
To My Sons (Abdulelah & Abdullah);
To My Sisters and their husbands;
To My Brothers and their wives:*

*Thank you all for your generous prayers, endless love, support and
sacrifice.*

To the King of Jordan, Jordanians and the Government of Jordan

{وَهُوَ اللَّهُ لَا إِلَهَ إِلَّا هُوَ لَهُ الْحَمْدُ فِي الْأُولَى وَالْآخِرَةِ وَلَهُ الْحُكْمُ وَإِلَيْهِ تُرْجَعُونَ} - سورة القصص آية 70

CHAPTER ONE: AN INTRODUCTION

1.1. The Study at a Glance

This thesis explains the dynamics of management accounting change (MAC) in the Jordanian Customs Organization (JCO) in particular and in the Jordanian public sector in general, exploring how it has been influenced by NPM reforms and institutional pressures. It thus makes a striking distinction between two significant theoretical strands of this debate in the public sector, in terms of intentions and processes of change. To do so, it draws on a contextual ‘institutional’ framework by synthesizing three institutional theories: New Institutional Sociology - NIS (Dillard *et al.* 2004), Old Institutional Economics - OIE (Burns and Scapens 2000), and Power and Politics Mobilization (Hardy 1996) - to provide a holistic view of organizational and environmental contexts. It presents the results of an interpretive case-study of the JCO as evidence of the situations of change at three levels of institutional analysis: political and economic level, organizational field level, and organizational level. The rationale of this study is that management accounting is socially constructed and must therefore be studied in its organizational and socio-economic contexts. The study confirms that management accounting is not a static phenomenon but one that changes over time to reflect new systems and practices. MAC is part of organizational change; hence, management accounting rules and routines are part and parcel of organizational rules and routines.

The thesis begins with an introductory chapter that explains the intellectual puzzle of the study and helps to formulate the research questions sensibly and coherently (Mason 2002). The intellectual puzzle also defines the research topic and problems associated with ontological and epistemological positions encapsulated in the research strategy (*ibid.*). Besides the research questions, the present chapter provides a brief description of the research methodology and methods. It also introduces the research contributions and their importance. Finally, it presents an outline of the structure and organization of the thesis.

1.2. The Intellectual Puzzle of the Study

Various types of organizations, be they for profit or not for profit, affect our daily lives and practices by providing a wide array of goods and services. Such organizations, in the course of their operations, should have two important criteria in general: 1) they should have a set of goals or objectives; and 2) to achieve these goals, managers need information (Goold and

Quinn 1990; Kaplan and Norton 1992; Hilton 2001; Pearlson and Saunders 2006). This information, if it is to be relevant and beneficial, requires management coordination among different organizational levels, especially in complex organizations. Management accounting, as an integral part of the organizational process, and management accountants, as strategic partners in the organizational team, both contribute to create value for the organization by managing resources, activities and people to achieve the organizational goals (Hilton 2001; Bhimani *et al.* 2008; Willmott and Alvesson 2012). Hence, the main objective of management accounting is to provide organizational management with financial and non-financial information that is useful and relevant for purposes of planning, control, performance measurement and decision-making. In contrast, financial accounting can only provide financial information for interested parties in order to help them make decisions (Mia and Chenhall 1994; Scott and Tiessen 1999; Hilton 2001).

The relevance of management accounting is problematic. Over the last few decades, management accounting and its relevance have been extensively debated. Starting from the 1980s, the debate about management accounting witnessed a great contention that was commenced by Kaplan (1983) in the US and Hopwood (1983) in Europe. On the one hand, Johnson and Kaplan (1987), in their acclaimed book '*Relevance lost*', stated that management accounting had 'lost its relevance'; as a result, management accounting practices were becoming subservient to financial accounting practices to fulfil external reporting purposes, and the conventional MAPs were failing to provide decision-makers with relevant information suitable for current business problems (Johnson and Kaplan 1987). They also mentioned that management accounting techniques had not changed or developed since 1925, in spite of changes in information technology and environment. On the other hand, Hopwood (1987) argued that management accounting is not a static phenomenon but one that frequently changes over time to reflect new patterns and techniques of organizational activities. In this regard, Bromwich and Bhimani (1989) claimed that management accounting was in crisis and there was a clamour for change in management accounting practices (MAPs).

Since the publication of that book, many authors have suggested that contemporary organizations need to reconsider and re-examine their existing practices and replace them with new practices to deal with environmental change (e.g., Chua 1988; Roberts and Scapens 1990; Tayles and Drury 1994; Humphrey and Scapens 1996; Burns *et al.* 1999). In the 1990s, there was a considerable amount of research examining contemporary problems of

conventional MAPs, and aiming to introduce new MA innovations in response to the changes in the business environment. These innovations included the following: activity-based costing (ABC) and activity-based management (ABM) (Bhimani and Pigott 1992; Cooper and Kaplan 1992; Soin *et al.* 2002); Total Quality Management (TQM) (Powell 1995; Chenhall 1997; Connor 1997; Hoque 2003; Kaynak 2003; Prajogo and Sohal 2006); Balanced Scorecard (BSC) (Kaplan and Norton 1996; Kaplan and Norton 1996; Hoque and James 2000; Norreklit 2000; Kaplan and Norton 2001; Nørreklit 2003; Norreklit *et al.* 2008); Just In Time system (JIT) (Malone 2003; Barg and Tyler 2009; Libby and Lindsay 2010); and Strategic Management Accounting (SMA) (Simmonds 1980; Simmonds 1981; Bromwich 1990; Dixon and Smith 1993; Collier and Gregory 1995; Dixon 1998; Cravens and Guilding 2001; Roslender and Hart 2003; Cinquini and Tenucci 2007; Lord 2007; Cadez and Guilding 2008; Langfield-Smith 2008; Cinquini and Tenucci 2010).

Despite all these innovations, organizations have preferred to continue using conventional MAPs, and make different uses of the information thus generated, rather than adopt 'revolutionary' management accounting systems (Bromwich and Bhimani 1989; Burns *et al.* 1999). However, success in today's complex and competitive business environment relies on the ability to achieve strategic change, which clarifies the work of organizational actors in following the organizational strategy (Scapens 1994; Hardy 1996; Burns *et al.* 1999). As noted by Atkinson *et al.* (1997), new accounting innovations have faced a number of problems in their implementation, such as ABC. So it is important to adapt a new business environment to a new system by establishing some changes inside the organization before applying this system. Scapens and Burns (2000) argue that the change in MAPs and systems undoubtedly took place in many organizations, but this change was in terms of methods used rather than adoption of new advanced systems. Hence, there is a need to answer this question: "Why have MAPs and systems been particularly slow to change, despite the rapidly changing technological and organizational environment in recent years?" (Scapens and Burns 2000:9). Accordingly, two different strands of MAC have emerged: one argues that conventional management accounting practices continue to be used (Drury *et al.* 1993; Bromwich and Bhimani 1994); and others believe that there have been changes in the ways of using MAPs and systems (Atkinson *et al.* 1997; Friedman and Lyne 1997; Scapens and Burns 2000).

Management Accounting (MA) literature has divided these strands into two main perspectives: rational perspectives, and interpretive and critical perspectives (Ashton *et al.*

1991; Ryan *et al.* 2002; Wickramasinghe and Alawattage 2007). Rational perspectives represented by the conventional mainstream of MA research can be classified into two approaches, normative economic models and positive economic models, which are grounded in neoclassical economic theories. On the one hand, normative economic models were developed in the 1970s and were concerned with providing managers with a set of decision techniques to help them in their day-to-day work and to find optimal solutions (Scapens 1984; Ashton *et al.* 1991). On the other hand, positive economic models tried to explain and predict economic behavior by using different organizational theories, such as contingency and agency. In this approach, some researchers have used contingency theory to study the relationships between different organizational factors and MAPs (Libby and Waterhouse 1996; Williams and Seaman 2001; Baines and Langfield-Smith 2003), while others have focused on typology of MAC (Sulaiman 2003; Sulaiman and Mitchell 2005; Chanegrih 2008). Others have used agency theory to open up the ‘black box’ and to explore new insights into managerial control within the organization (Walker 1989; Ezzamel 1991; Williamson 1991; Ogden 1993; Lambert 2001; Speklé 2001). Their studies have drawn on survey questionnaires and statistical models in order to derive frameworks of contingency or agency theories (Zoubi 2011).

For neoclassical researchers, organizations are portrayed as coherent units that are oriented to attaining specific goals, employees are described as behaving in a consistent and purposeful manner towards rational ends, and accounting is considered as an information system that offers assistance to decision-makers (Hopper and Powell 1985). The fundamental assumptions of rational theories and their application in management accounting studies are looking beyond rationality and optimalization. These types of studies can only provide prescriptions for managerial practices, assuming that hypothesis-testing and cross-sectional analysis as well as normative models are functionally helpful for daily practice (Hopper and Powell 1985; Ashton *et al.* 1991; Wickramasinghe and Alawattage 2007). Studies based on these assumptions can only provide a very limited picture of an organization’s motivations to adopt new management accounting system. Obviously, taking a rational perspective is far from addressing the complexity of the organizational realm and expressing human behavior appropriately (Jones and Dugdale 2002). Lukka and Granlund (2002) state that this type of research refers to the nature of traditional, mainstream accounting research, and can be described as ‘the genre of consulting research’. It has also been criticized for failing to present an understanding of the complexities and dynamics of MAC (Burns and Scapens

2000). Thus far, MA researchers have still been more concerned with improving senior managers' ability to manage and control than with studying accounting systems in practice (Scapens 1990). In this regard, Scapens affirms that

“[...] we still need to know how and why particular management accounting practices are adopted. Despite the case studies published to date, we still have only limited understanding of the factors which influence the nature of management accounting practice” (1991:218-19).

The interpretive and critical perspectives thus emerged as alternatives to rational perspectives to explain MAC within its broader social and economic context (Hopwood 1987; Hopwood and Miller 1994; Drury and Tayles 1995). Alternative perspectives have presented different theories (such as institutional and sturcturation theories) in which accounting has to be seen as a dynamic and social institution, subject to changes under historical conditions, and socially constructed (Hopwood 1976; Ashton *et al.* 1991; Wickramasinghe and Alawattage 2007). Unlike rational perspectives, the interpretive and critical (i.e. pragmatic) perspective is a research approach that is used to explain MAC as processes over time rather than focusing only on the outcomes (Hopwood 1987; Hopwood and Miller 1994; Wickramasinghe and Alawattage 2007). Unlike rational researchers, interpretive and critical theorists believe that ‘rationality’² can be articulated through subjective interpretations of organizational members (managers and employees) (*ibid.*). By conducting case-studies of individual organizations they were able to report how MASs produce different consequences (*ibid.*). Consequently, they believe that MAPs are outcomes of shared meanings of organizational members rather than artificial (technical) views, as was seen in the rational perspective (*ibid.*). The objective of this research stream is much more to understand the context in which management accounting operates (Burchell *et al.* 1980; Hopwood 1983; 1987; Collier 2001), and to explain MAPs by emphasizing their social, economic and political construction (Burchell *et al.* 1985; Lukka and Granlund 2002; Hopper and Major 2007).

Along with the interpretive perspective, another perspective called institutional theory emerged from a critique of the neoclassical economic perspective (Scapens 1994; Scapens and Burns 2000; Scapens 2006). The principal aim of institutional theory was to provide an alternative framework with a sociological essence (Ashton *et al.* 1991; Wickramasinghe and Alawattage 2007). In MA literature, institutional theory is divided into three approaches: old institutional economics (OIE) is concerned with internal dynamics; new institutional

² Interpretive theorists see rationality as an interpretive project instead of a universal reality that can be seen in each organization.

economics (NIE) focuses only on economic factors; and new institutional sociology (NIS) is concerned with external factors including economic ones (Burns 2000; Burns and Scapens 2000; Siti-Nabiha and Scapens 2005; Burns and Nielsen 2006; Ribeiro and Scapens 2006; Scapens 2006; Yazdifar *et al.* 2008). Besides, some researchers have used Giddens' structuration theory (1984) as a helpful framework in management accounting research (Macintosh and Scapens 1990; Macintosh and Scapens 1991), although some contend that it is not useful for explaining processes of accounting change because it ignores historical events (Archer 1995; Burns and Scapens 2000). However, there is still a lack of research adopting the interpretive perspective to explain MAC, especially in the public sector. Scapens (2004; 2006; 2008) argues there is little research into why and how processes of accounting change have emerged (or failed to emerge) within organizations over time. Similarly, Dillard *et al.* (2004:506) established that

“Accounting scholarship is undergoing a reconceptualization, in part due to the empirical failure of efficient market theory, agency theory and contingency theory to provide rationales for developing accounting techniques and systems [...]. As a result, accounting scholars are being asked to refocus their efforts toward the better understanding of how accounting influences, and is influenced by, a “multiplicity of agents, agencies, institutions and processes” (Miller 1994:1)”.

Indeed, few references in MA literature reveal disparate views concerning factors influencing the introduction, diffusion and implementation of MASs (see, Burns *et al.* 2004; Yazdifar 2004). Moreover, the existing research has been criticized because, amongst other things, "it often fails to consider change in MAS over time, their functioning in dynamic conditions and the general dearth of empirical evidence" (Jones 1985:178). Consequently, there have recently been calls for more intensive case-study research, using both interpretive and critical perspectives, in order to enhance the comprehension of management accounting in practice (Roberts and Scapens 1990; Scapens 1990; Scapens 1991; Scapens 1992; Scapens and Roberts 1993; Scapens 1994; Baker and Bettner 1997; Hopper and Hoque 2006). It is assumed that only by conducting intensive and in-depth case-studies might it be possible to understand why and how an organization's MAPs become what they are, or are not, over time, i.e. MAC as a process (Burns and Scapens, 2000).

In response to these recent calls, this study uses institutional theory to explain the dynamics of MAC within the JCO. Institutional theory starts from structuration theory as a way of extending the theoretical domain of management accounting theory into the social realm. The study also focuses on the interaction between three levels of institutional analysis. Alternative assumptions can be constructed through the dynamics of institutions, which aid an

understanding of the processes of change by locating MAPs in their historical context as well as their economic, cultural and social contexts (Ryan *et al.* 2002). As a result, institutional theory shares the views of structuration theory (Wickramasinghe and Alawattage 2007). Both OIE and NIS assumptions are compatible with the structuration theory assumptions. However, these theories have some limitations; while OIE focuses only on intra-organizational factors and ignores power and politics influences, NIS considers extra-organizational pressures on MAC. In avoiding these limitations, this study becomes significant as it develops a new contextual framework that combines OIE, NIS and power mobilization theory to explain the processes of change in the JCO. A few studies in management accounting literature have adopted a hybrid (contextual) framework that combines OIE, NIS and power mobilization theory (Dillard *et al.* 2004; Yazdifar 2004; Yazdifar *et al.* 2008; Ma and Tayles 2009; Zoubi 2011)³.

An institutional ‘contextual’ framework could serve as a basis for understanding and analyzing processes of MAC after the introduction of NPM reforms. Particularly, to further understand change processes in organizations, including the causes of their introduction and their effects, it may be interesting to provide a broad analysis of MAC in the public sector that is based on multi-levels of institutional theory (Ter Bogt 2008). As far as the author is aware, little pragmatic research has been conducted with respect to the possible contributions of institutionalism to an understanding of gradual MAC in the public sector at multi-stages. Therefore, it is hoped that institutional theory will provide a basis for interpreting and analyzing the reasons for introducing NPM reforms - such as accounting changes and the change processes in the JCO - and their effects (Nor-Aziah and Scapens 2007; Gomes *et al.* 2008; Ter Bogt 2008). This study presents a holistic representation of the processes of change by focusing attention on the underlying institutions that encode and enact MAPs and systems at three levels: political and economic level, the organizational field level and organizational level. An examination of the dynamics between the institutionalized beliefs and values that may occur between these three levels of institutions will enhance the understanding of MAC in the JCO and provide further information about NPM reform initiatives.

³ These studies were also conducted in the private sector, whereas this study will be conducted in the public sector.

1.3. Research Questions and Methods

As mentioned above, the study aims to explain the dynamics of management accounting change(s) in the JCO after the NPM reforms were made. The main research question that has arisen in the mind of the researcher in relation to this study is:

- *How have processes of management accounting change been manifested in the Jordanian Customs Organization (JCO) after NPM reforms?*

In relation to this, the following specific research questions, derived from the main question, were addressed:

- 1: What were the institutional pressures (powers) that affected the emergence and diffusion of management accounting systems? How did they interact through three levels of institutional analysis?*
- 2: How have processes of management accounting systems, particularly budgeting systems, been implemented and changed within JCO?*
- 3: How have the dynamics of organizational change and ICT affected management accounting change?*

To solve the research puzzle and answer the research questions, a qualitative research design in this study will take the form of an interpretive case-study to track differing paths of change and their effects over time (Brignall and Modell 2000). The rationale for adopting qualitative research is to obtain a holistic, integrated understanding of social phenomena, on the basis of rich, contextual and detailed data (Miles and Huberman 1994; Mason 2002). Besides, the ontological and epistemological assumptions that underpin the interpretive paradigm are consistent with the assumptions that underlie the theoretical (contextual) framework that is used to inform the JCO case-study (Scapens 1990). The adoption of an interpretive case-study, as advocated by MA authors, is necessary to explain MAC in complex settings, and the theoretical framework is required to interpret the case-study findings (Kaplan 1986; Scapens 1990; Johnson 1992; Yin 1994). Six steps of the case-study strategy have been used in a logical sequence. They are preparation, collecting evidence, assessing evidence, identifying and explaining patterns, theory development, and report-writing (Ryan *et al.* 2002; Scapens 1990). Along with these steps, Saunders *et al.* state: “If you are using a case study strategy

you are likely to need to use and triangulate multiple sources of data” (2009:146). In view of this, triangulated data (i.e. interviews, observations and documents) were collected and analyzed in accordance with the previous six steps and contextual framework. Notably, this study has used ‘convincingness’ criteria (i.e. authenticity, plausibility and criticality) rather than validity and reliability criteria to assess the research quality and analysis. This in turn helped to provide more coherent and plausible analysis and results for the study.

1.4. Research Contributions

The contributions of this study are several. Each chapter of this thesis makes a special contribution. Chapter One introduces the intellectual puzzle as a justification for this study, recognizing the lack of empirical research on MAC in MA literature in general and in the public sector in particular. Chapter two presents a comprehensive literature review and concludes that MAC is a dynamic and complex process; thus, a contextual approach is needed to clarify the complex aspects of the processes of MAC in organizations. Chapter Three discusses the main recent criticisms by institutional theorists concerning NIS, OIE, and power and politics mobilization, and their interrelationships with structuration theory; it suggests that it would be beneficial to synthesize them. Chapter Four considers the use of an interpretive case-study to study MAC in organizations and it also suggests ‘convincingness criteria’, namely authenticity, plausibility and criticality as alternative methods to assess the quality and analysis of the study. Chapters Five and Six provide a rich description of the JCO and its environment, and explain the dynamics of MAC as influenced by the ‘managing for results’ approach and institutional pressures. These chapters also discuss the processes of emergence, diffusion and implementation of budgeting systems at three levels of change. Finally, Chapter Seven contributes to both MA literature and institutional theory by providing further understanding and thick explanation of the dynamics of MAC in the public sector. This includes the following: explaining the implications of the contextual approach in studying MAC; overcoming some of the limitations of NIS and OIE; clarifying the necessity for bridge-building between the institutional theories to expand their level of analysis (Yazdifar 2004); and comparing the main findings of the study with the available evidence from the relevant literature.

MA authors, in particular Anthony Hopwood, have been arguing for at least three decades that we should pay attention to the organizational, economic and social contexts in which management accounting operates (see, Hopwood 1976; 1978; 1983; 1987; 1990; Hopwood

and Miller 1994). They have also argued that we should attend to the ‘external’ origins of ‘internal’ accounts, that we should not see ‘context’ as something external to organizations but as something that moves across them, and that we should see management accounting as both shaped by, and shaping, wider social, economic and political processes (see, Burchell *et al.* 1980; Hopwood 1983; Burchell *et al.* 1985; Chapman *et al.* 2009). This study very much adheres to this way of thinking, as it is a good contribution to this research volume. This broad sensitivity to the nature of management accounting and its implications for the ways of studying, understanding, and dominating in accounting institutions can be observed in all the chapters of this thesis. This study has moved forward towards this objective by integrating institutional and structuration theories to develop a new theoretical framework useful for a better understanding of institutions, MAPs, and processes of MAC.

This study thus contributes to the growing body of literature by combining and refining a framework developed by Burns and Scapens (2000), Dillard *et al.* (2004) and Hardy (1996) from one side, and Pettigrew (1987) and Dawson (1994) from another side to develop a new contextual framework (as an innovative framework). This can be considered an innovative aspect of the study because this is the first attempt to unite these three theoretical frameworks precisely under one conceptual framework in order to provide a holistic view of processes of change, drawing on an interpretive case-study. The proposed framework explicitly recognizes the socio-economic and political nature of institutional change and provides a basis for a more complete understanding of the dynamics involved in such an enacting, embedding and changing of organizational aspects and processes. It also clearly recognizes the organizational field as an interactive part between a larger social and economic system and the organizational level. In addition, it more directly addresses the dynamics of emergence, diffusion and implementation of management accounting criteria and practices. As a result, the framework extends institutional theory-based management accounting as well as providing a comprehensive basis for examining the dynamics of accounting in the institutionalization process (see Dillard *et al.* 2004). The constructed contextual framework of MAC can serve MA researchers well by providing them with a common frame of reference. Meanwhile, there has been a call to develop a new theoretical framework capable of supporting the understanding of the complex mishmash of interrelated factors at both extra- and intra-organizational levels that pressure management accounting practices to change (see Scapens 2006). In this regard, this study confirms the evidence that other factors, beyond economic ones, may play an influential role in the implementation of MAC in the public

sector (see, Meyer and Rowan 1977; Greenwood and Hinings 1996; Burns and Scapens 2000; Scapens 2006; Ter Bogt 2008; Chapman *et al.* 2009).

As Burns and Scapens (2000:9) state, “It should be emphasized that this framework is not intended to provide operational constructs for empirical research and hypothesis testing. Rather, its purpose is to describe and explain analytical concepts which can be used for interpretive case studies of management accounting change”. These concepts will contribute to the extent that they focus the attention of researchers (and perhaps also practitioners) on the main aspects of change processes. However, studying organizational change including MAC tends to focus on two types of questions: (1) What are the antecedents or consequences of changes in organizational aspects or accounting practices? (2) How does an organizational change emerge, develop, grow or terminate over time? Although the vast majority of mainstream research to date has focused on the first question, recently there has been a growing interest in studying the second question (Van de Ven and Huber 1990:213; Scapens 2004; 2006; Lukka 2007). In the same way, this study contributes to explanations and interpretation of the second question by studying how management accounting and organizational change emerged in response to institutional pressures.

The "How" question is concerned with describing and explaining the chronological sequence of events that unfold as an organizational change as well as MAC takes place. Case-studies are fundamental to gaining an appreciation of dynamic organizational life, and to developing and investigating theories of organizational adaptation, change, innovation and redesign. In terms of an input-process-output model, the first question focuses on the inputs and outcomes of change, while the second examines the process of change (Van de Ven and Huber 1990; Scapens 1994; Scapens *et al.* 2003). To understand how management accounting and organizational change occur, Abbott (1988) suggests that researchers should alter their classic methods of analysis. Rather than first generalizing in terms of variables, he states that one should first generalize in terms of a narrative history or a sequence of events. Only in this way will the key aspects of order and sequence of events be maintained in making theoretical generalizations about processes of organizational change. Indeed, alternative processes can lead to identical change outcomes, an application of the “convincingness criteria” (see also, Golden-Biddle and Locke 1993). However, the basic problem is that, although methods of examining the first question are well-known and grounded in standard research methodology, relatively little attention has been paid to developing methods for conducting qualitative

research on the second question. This is perhaps because few guidelines are available to qualitative researchers interested in studying processes of change in organizations. As a result, researchers undertaking case-studies have mostly been developing their own methods through trial and error (see, Van de Ven and Huber 1990; Scapens and Burns 2000; Ryan *et al.* 2002).

Accordingly, this study has provided a significant contribution in terms of methodological issues by adopting an interpretive case-study-based qualitative approach to studying MAC. In general, it provides rich insights into the practical problems and methods experienced in conducting case-study fieldwork and in analyzing data to empirically examine processes of management accounting and organizational change. In this regard, many researchers have advocated the adoption of interpretive case-studies to study MAC, especially in the public sector (see, Scapens 1990; Van de Ven and Huber 1990; Scapens 1992; Hopwood and Miller 1994; Otley and Berry 1994; Brignall and Modell 2000; Scapens and Burns 2000; Hopper *et al.* 2001; Ryan *et al.* 2002; Scapens 2004; 2008; Chapman *et al.* 2009; Scapens 2011). As Scapens (2004:262) affirms,

“Although my research on management accounting change has focused on large, usually multinational companies, it would be of interest to broaden the research to study management accounting change in public sector organizations [...]. Such studies would involve extreme cases for the theoretical insights that I have developed in my case studies of large private companies”.

The study also contributes to the development of the MA literature by explaining the processes of MAC in the public sector, drawing on the JCO case-study. To the best of the researcher's knowledge, most studies have been conducted on the private sector as a result of competitive and technical pressures in this sector. However, comparatively little attention has been paid to the social and institutional processes through which such systems are implemented (Ittner and Larcker 1998), or how they come to be used in the way they are (see, Brignall and Modell 2000). The approach guiding previous research is mainly one of rational instrumentalism; hence, power relationships and economic and political processes, studies of which would enhance the understanding of systems implementation and use, have largely been ignored (Markus 1983; Hopper and Powell 1985; Pettigrew 1990; 1995; Dawson 1997; Brignall and Modell 2000; Pettigrew *et al.* 2001; Dillard *et al.* 2004). This neglect of the insights of institutional theory is particularly unfortunate in a public sector context (Brignall and Modell 2000; Collier 2001; Modell 2006; Modell *et al.* 2007; Ter Bogt 2008; Modell 2009).

This study strikingly distinguishes between two significant theoretical strands of this debate in the public sector, and it is hoped that such an approach will help to expand the domain of MA research in terms of intentions and processes of change. NPM proponents can be viewed as intent on making fundamental changes to organizational structures, processes and practices in the public sector. In terms of processes of such reforms, one alternative theoretical framework, ‘institutional theory’, has been deployed to analyze their impact on MAC. A significant new research agenda in management accounting was opened up by this focus on institutional environments. MA researchers were encouraged to look beyond the organization, to see changes within the organization as dynamically linked to changes in the wider environment (see Chapman *et al.* 2009).

The JCO case-study has shown that there is scope for using an institutional framework for empirical studies of public organizations. The number of case-studies that have inspired by institutional theory, especially those using the OIE approach to explain MAC in public organizations, is still very small. More studies like the present one are needed to improve the comprehension of institutional demands for these types of organizations (see Major 2002). Institutional theory has been used to show that all organizations are subject, to some degree, to institutional demands (Scott 1991; Scott and Meyer 1994; Scott 1995). Formal organizations were portrayed as being driven to adopt accounting practices and procedures through which they came to be linked to their institutional environments in order to increase their legitimacy and survival prospects. The rules embodied in such practices then become binding on the organization. The formal structures of organizations thus come to reflect the myths of the institutional environment as well as the demands of the work activities of the organization (Meyer and Scott 1983; Scott and Meyer 1994; Scott 1995; Dacin *et al.* 2002; Chapman *et al.* 2009). The JCO case-study is a contribution to the construction of an institutional framework to support empirical research in other public organizations, as an alternative to neoclassical theories. Indeed, the assumptions on which mainstream accounting theories are based are too restrictive and, hence, unable to provide convincing explanations for the motivations of organizations in adopting new MAS (Hopper and Major 2007).

The analysis provided by the present study contributes to the development of institutional theory as it examines how the organization is simultaneously subjected to a high level of efficiency and considerable institutional demands. Thereafter, the domain of accounting research itself will be extended. If the pressures on accounting are seen to have extended

beyond the organization, processes have worked in the opposite direction too - accounting itself may come to be seen as contributing to the shaping of those social and economic relations (Chapman *et al.* 2009). External accounts, and the requirements for them, were seen as influencing internal accounts (Miller and O'leary 1994; 2007). Reciprocally, internal accounts could influence wider social relations (Miller and O'leary 1987). Accordingly, this was to have profound effects on MA research (Chapman *et al.* 2009). In this way, economic and institutional pressures are not necessarily contradictory and mutually exclusive: they can be complementary. The JCO case-study showed that legitimacy was reinforced by organizational technical superiority, and that efficiency is based on the adoption of legitimized elements and arrangements. Another contribution of this study is the analysis of the internal dynamics of change in the JCO. The JCO case-study has shown that it can act as a basis for conducting further case-studies focused on the interface of macro and micro levels of institutional change (Major 2002; Dillard *et al.* 2004; Ribeiro and Scapens 2006; Hopper and Major 2007). As a result, the case-study analysis revealed that it would have been 'incomplete' had the external side of the case not been analyzed.

Some theoretical and empirical implications for practitioners and researchers have resulted from this study. The findings confirmed criticisms of NIS theory. Social and economic pressures were inseparable, public organizations were not immune from institutional pressures, and extra-organizational competitiveness and innovative diffusion were significant. Along with OIE proponents, the findings agree with Hopwood and Scapens and their followers that management accounting is not a static phenomenon; it changes over time to reflect new forms and practices, MAC is part of organizational change, and MA rules and routines are part of organizational rules and routines. Besides, the study confirmed that organizational change including MAC takes place in response to external pressures, and the relationships between accounting practices (routines) and systems (rules) are recursive. Moreover, accounting routines were written and developed in the form of accounting rules to avoid the loss of knowledge and to facilitate the training of new staff (e.g. JCFS), while accounting rules (i.e. GFMIS and ROB systems) led to the emergence of new accounting routines, in equivalence with new systems (e.g. budget manual and chart of account) (see Burns and Scapens 2000).

At the same time, MASs are closely coupled to organizational configurations. The processes of management accounting and organizational change are inextricably linked; each of them

leads to the other. The interaction process between organizational configurations (i.e. structure, strategy, culture, ICT and leadership) and MASs helped in identifying and recognizing the dynamics that have been manifested between them. In this regard, the ‘managing for results’ approach was shorthand for MAC, in that it reflects an incremental and evolutionary change in the organizational and accounting culture of JCO across the government. Thus, JCO has achieved ‘external adaption’ and ‘internal integration’ by developing operating procedures, re-engineering customs processes, and implementing new managing-for-results techniques, especially ROB, JCFS and GFMIS systems.

A final contribution of this research relates to the domain of the JCO case-study. This study has been conducted in a developing country as, to the best of the researcher’s knowledge, no MAC studies have been conducted in the Jordanian context as evidence from a developing country. Hence, the main aim of this study is to extend existing literature on MAC by presenting an analysis of a case-study (the JCO) from a developing country, a perspective previously ignored in MA research. The addition of this kind of research on developing countries will enable future researchers to highlight the differences of MAC in developed and developing countries, and increase the evidence from emerging economies. It is hoped that the JCO case-study will provide some insights into how internal dynamics interact with external pressures. The researcher hopes that the case-study presented in this thesis, as part of the body of MA research, will contribute to the development of this body of research, overcoming some of the limitations of institutional theory, and extending this approach theoretically.

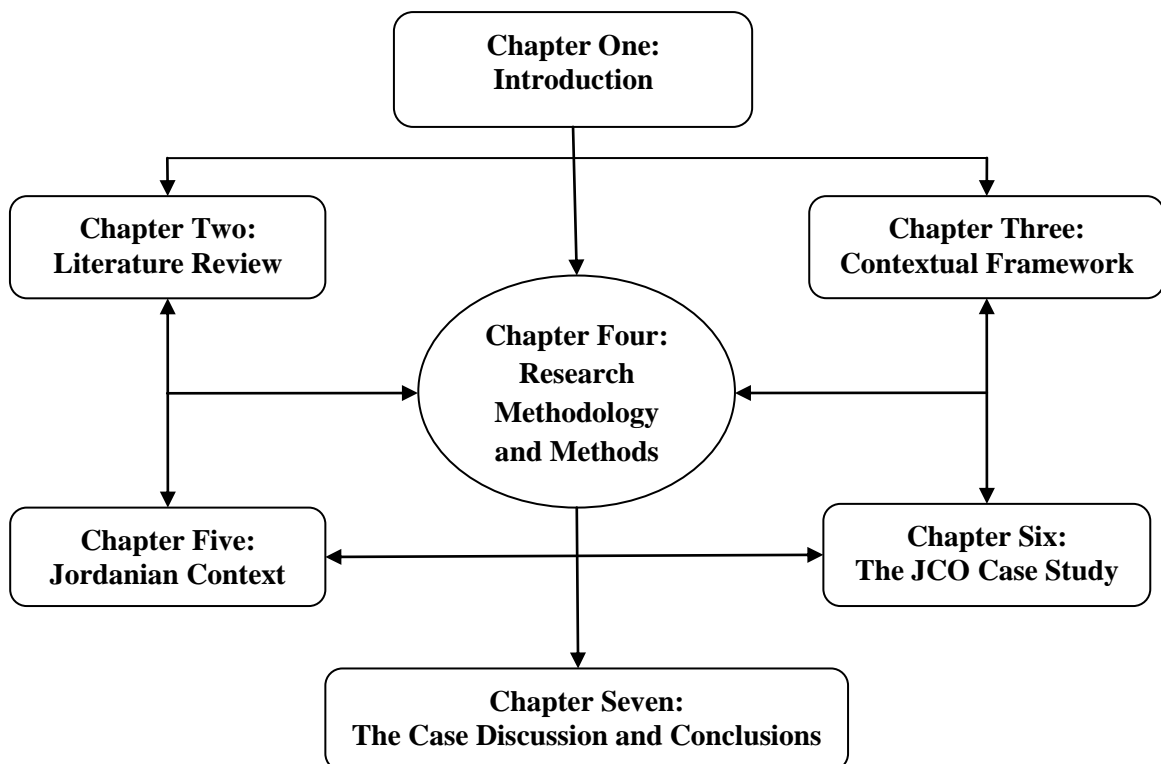
1.5. The Thesis Structure

The structure of the thesis is largely grounded in its title. It is important that the title be meaningful and a reflection of the content of the study. The content of this thesis is structured into seven chapters which are inextricably linked (see Figure 1.1). The first chapter discusses the intellectual puzzle of the study, presents the research questions and methods, and introduces the research contributions and the thesis structure. Chapter Two provides a comprehensive review of the relevant literature on organizational change, with a specific emphasis on MAC. The chapter first presents a general idea of the definition, nature and functions of management accounting. Afterwards, it discusses organizational change in terms of its meaning, types, and the two dominant approaches used in research on organizational change, also highlighting the contextual approach. It then proceeds to discuss MAC as a part of organizational change, and the main factors affecting MAC. This is followed by a

discussion of alternative perspectives for understanding MAC, and the relevance of institutional theory.

The contextual framework, which is an important aspect of this study, has been discussed in Chapter Three in detail. This theoretical chapter discusses the theoretical perspectives which have been built into the contextual framework. It starts with structuration theory as a meta-theoretical base and theoretical foundation of the proposed framework inspired by institutional theory. The following sections outline the recent perspectives of NIS and OIE, and their assumptions, underpinnings and frameworks, followed by the role of power in both NIS and OIE, and limitations in both approaches. Thus, this theoretical framework chapter shows the interrelationships between Institutional, Power and Structuration theories, and suggests their integration. It concludes with the new contextual framework to inspire the objectives of this study, and it justifies the resulting framework.

Figure (1-1) The Thesis Structure



(Source: Author)

Chapter Four represents a roadmap and methodology for the study as a whole. It explains the methodological issues underpinning this study, starting with the research philosophy and

paradigm. It also discusses the research approach, strategy and design. It indicates the reasons for using an interpretive approach, the way in which the case-study was conducted and how the evidence was collected and analyzed. It then proceeds to offer details of the main research steps used, including the triangulation of evidence adopted and ‘convincingness’ criteria to assess this evidence. Finally, it examines the quality of qualitative data analysis.

Chapters Five and Six present a ‘rich description’ of the JCO case-study and its environment. The initial sections of Chapter Five explain the dynamics of reforms in the Jordanian government environment, including its political and economic environment and challenges and risks, followed by a discussion of political and economic reforms and the introduction of public sector and fiscal reforms (toward NPM reforms) as a key pillar of the National Agenda. The next sections of the chapter briefly summarize the major organizational changes in the Jordanian government-inspired NPM doctrine, especially the adoption of the managing-for-results approach after the diffusion of the culture of TQM principles and the KAA Excellence Model. Chapter Five ends with a discussion of the emergence and diffusion of budgeting systems (ROB and GFMIS systems) as key components of the managing-for-results approach. Overall, Chapter Six discusses the implementation of the managing-for-results approach in the JCO, with an emphasis on budgeting for results. This follows a description of the JCO case-study, its history, structure, system, market and stakeholders. The chapter has focused more clearly on the dynamics of organizational change and MAC, and their interaction.

Finally, Chapter Seven sets out the main findings of the study and provides a theoretical analysis and discussion. It clearly addresses the processes of emergence, diffusion, and implementation of the managing-for-results approach, including ROB and GFMIS in the JCO case-study. The contextual framework is used to inform the theoretical analysis and the discussion of the case-study. The chapter also presents the main findings of the study, research limitations and avenues for future research. This chapter concludes that the contextual framework inspired by institutional theory is useful for conceptualizing the processes of MAC.

CHAPTER TWO: LITERATURE REVIEW

MANAGEMENT ACCOUNTING AND ORGANIZATIONAL CHANGE

“If we want things to stay as they are, things will have to change”⁴.

2.1. Introduction

In the introductory chapter, the intellectual puzzle of the study together with the research questions (gap) were discussed and addressed. Accordingly, management accounting change (MAC) has become the current debate in the management accounting literature, i.e. whether management accounting has changed, or should change, or has not changed. The main objective of this study is to explain MAC in the JCO as influenced by NPM reforms and institutional pressures. Consequently, this chapter aims to review the relevant literature on management accounting and organizational change. It provides a comprehensive basis for the research of MAC conducted in terms of theories used, influential factors, dynamics and aspects of change. This chapter is divided into eight sections with an introduction. The first section presents the definition and nature of management accounting. The second section discusses the functions of management accounting within the organization. The third section introduces the historical background of management accounting. This is followed by a discussion of organizational change's dynamics and approaches, management accounting change's dynamics, and the external and internal factors influencing MAC. In this section, the study introduces contextual analysis in terms of management accounting and organizational change literature; it also explains the relationship between MAC and NPM doctrine. The final sections discuss alternative perspectives on studying MAC, with the emphasis on the relevance of institutional theory, followed by conclusions.

2.2. The Definition and Nature of Management Accounting (MA)

In the textbooks, MA has been defined as “the process of identifying, measuring, analysing, interpreting, and communicating information in pursuit of an organization's goals” (Hilton 2001:4). It can be seen as financial measures and reports as well as other types of information (non-financial) that are intended primarily to assist managers to make decisions in fulfilling the goals of the organization (Horngren *et al.* 2002). MA is concerned with providing relevant information to managers and other parties within the organization, who direct and control its

⁴ di Lampedusa Giuseppe 1958, cited by Burns and Scapens (2000).

operations (Garrison *et al.* 2003). Hence MA is an integral part of the organizational management process, and managerial accountants are strategic partners in an organization's management team. They seek to create value for the organization by managing resources, operational activities and people to achieve the organization's strategic goals effectively (Hilton 2001).

In practice, the Institute of Management Accountants (IMA) recently has updated the definition of MA as “a profession that involves partnering in management decision making, devising planning [strategic planning] and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy”⁵. The MA concept has historically been changed in response to organizational developments through four stages:

- Stage I prior to 1950, when the concern was on cost determination and financial control through the use of budgeting and cost accounting technologies.
- Stage II by 1965, when the concern had shifted to the provision of management planning and control through the use of techniques such as responsibility accounting and decision analysis.
- Stage III by 1985, when attention was focused on the reduction of waste in resources used in business processes.
- Stage IV by 1995, when attention had shifted to the creation of value through the effective use of resources and technologies that examine the drivers of customer value and through organizational innovations (Balogun *et al.* 2004).

Nowadays, management has extended its role to address the needs of organizations operating in versatile and competitive contexts, with one or more of the following aspects: flattening hierarchical structures; elimination of functional specialization; removal of divisions between activities and their suppliers and customers; seeking to understand their core competences and their identity within relevant value chains; integrating their information systems; removing reliance on distant forms of financial control and creating localized control based on enhanced use of non-financial performance indicators; removal of cultural separations associated with traditional organizational forms and professional specialization (Horngren *et al.* 2002;

⁵ IMA (Professional Body of MA): Accounting Education Change Commission (1993). *“Positions and Issues”*. *Issues Statement Number 4: Improving the Early Employment Experience of Accountants*. Sarasota, FL: American Accounting Association. <http://www.aaahq.org/AECC/PositionsandIssues/issues4.htm>. Retrieved 2 November 2011.

Balogun *et al.* 2004). These aspects signify the dynamic nature of MA, which is the focus of attention for many management accountants around the world (Busco *et al.* 2007).

Accordingly, there are many pressures on MA to change. MASs that were designed for organizations operating in more stable environments are not workable in dynamic environments (Bhimani 2001) and, for organizations that were traditionally centralized, they are no longer able to provide the type of information required by managers today. This view embraces both profit-making organizations and not-for-profit and governmental organizations (Smith 1995; Lapsley and Pallot 2000). The traditional functional specialization of some organizations may have produced systems of performance measures and reward incentives that are fragmented and no longer appropriate for modern integrated operations that stress cross-functional processes (Horngren *et al.* 2002). Furthermore, the appearance of the notion of “new economy” adds further pressure as a result of change in the structure of economy and technological development, such as E-business and E-government (Suutari 2000).

2.3. Management Accounting Functions

MA is one of the key functions within the organisation (Hilton 2001). The objective of MA is to provide management with financial and non-financial information that is useful and relevant for purposes of planning, control, performance measures and decision-making. Conversely, financial accounting provides only financial information for interested parties in order for them to make decisions (*ibid.*). According to MA literature, there is an integration and interrelationship between these functions within the management process. Managers can execute each of these functions more effectively with MA information (*ibid.*).

1. Planning

MA is vital to strategic planning (Johnson and Kaplan 1987). Strategic planning is concerned with setting goals and objectives for the whole organization over the long term (Anthony 1965). MA is concerned with the procedures that organizations go through in attempting to define their strategies, goals and objectives. Such procedures are typically complex and linked with budgets and performance measures. Although some aspects of good performance can be quantified in terms of budget, many other aspects cannot. Even when an objective is quantifiable, the means of achieving it may not be well understood (Otley 1978; 1999; 2003). Thus, decisions on programmes of actions should be designed to achieve goals in terms of budgets. Accordingly, strategic plans, budgets and action programmes are inextricably linked. Hence, developing a budget is a critical step in planning any economic activity, such as in

governmental agencies (Hilton 2001). Governmental controls over the resources are the chronological root of budgeting (Wickramasinghe and Alawattage 2007). According to Guilding *et al.* (1998), budget planning is the most important role of budgets. Budgets are normally used for purposes of forecasting, planning, coordination, communication, control and motivation (Lyne 1988).

II. Controlling

MA is also a useful tool in the control of labor, processes and daily work. MA is only one of a range of techniques that can be used to control labour processes (Hopper and Armstrong 1991). In this regard, Foucault (1977) emphasized the significance of the development of new accounting systems that aimed at watching and controlling what individuals do. Accounting, as a disciplinary technique, is another linkage of power and knowledge. Hence, power in the organization is linked to the knowledge created through accounting systems. Johnson and Kaplan (1987) describe how MA innovations, in particular Return On Investment (ROI) and Budgeting, played a controlling role in the large organization. The use of budgets and ROI was a means of gaining more knowledge and thus power over the managerial labor processes. The extent of using accounting control systems depends on social and historical factors, and involves considering accountants as well as accounting (Ashton *et al.* 1991). Accordingly, management control systems rely to a considerable extent on MA information systems (Otley 2003). In general, the advantages of budgeting comprise growing effectiveness of planning and coordination, and supporting both control and learning processes through the assessment of actual results in comparison with plans (Clark 1923). More specifically, budgeting is the cornerstone in the process of management control in all organizations (Clark 1923; Collier 2003; Alexander and Nobes 2004). Therefore budgetary control helps to direct operational activities and is also suitable for a wider set of non-financial objectives, as evidenced perhaps by the balanced scorecard (Garrison *et al.* 2003).

III. Performance Evaluation

Foucault (1977) also emphasizes the development of accounting techniques for measuring human performance, and the origins of accounting as a disciplinary technique. New MAPs were developed to assist in the performance evaluation process. MASs provide data to evaluate the performance of each person and division, to evaluate organization-wide performance, and to decide on future organizational strategy and policy (Kaplan and Norton 1996; Kaplan and Norton 2001). Anthony (1965) argues that regular observations and

performance reports on actual achievement are necessary to ensure that planned actions are indeed achieving desired results. Thus, hourly, daily, weekly, monthly, quarterly and annual feedback cycles are necessary to enable timely corrective action to be taken when things do not go to plan. Thus, managers of the most successful organizations rely on both financial and non-financial performance measures. Financial measures summarize the results of past actions, but non-financial measures focus on current activities as well as the drivers of future financial performance. Hence, effective management requires a balanced-scorecard perspective that integrates performance measures in four key areas: financial, internal operations, customer, and innovation and learning (Kaplan and Norton 1992; Hilton 2001).

IV. Decision-Making

Decision-making is a fundamental part of management. When an organization begins its activities, it is usually small and decision-making is generally centralized. As an organization grows, however, its managers need more formal information systems, including managerial accounting information, in order to maintain control. Accounting systems are established to record events and provide the framework for internal and external financial reports. Budgets become necessary to plan the organization's activities. As the organization continues to grow, some delegation of decision-making becomes necessary. Decentralization is often the result of this tendency to delegation, which eventually help to emerge a fully developed responsibility accounting system. Thus, most large organizations are decentralized. Managers throughout these organizations are given autonomy to make decisions for their subunits (Stickland 1998; Hilton 2001; Malone 2003). Libby and Lindsay (2010) believe that budgets and the budgeting process are value-added. In general, it can be concluded that the budgeting process has continued to be the cornerstone of planning and controlling processes in all contemporary organizations. Neely *et al.* (1989) and Hansen *et al.* (2003) point out that budgets and budgeting processes reinforce the centralization of decision-making. Libby and Lindsay's (2010) results elucidate that the criticism that budgets are not connected to strategy is unproven and the budgeting process is used in many organizations to support their strategies. Conversely, King *et al.* (2010) conclude that there is a close relationship between budgeting practice and performance and a business's performance is correlated to budgets positively. Thus, businesses of all types and governmental organizations at every level must make financial and strategic plans to carry out routine operations, to plan for major expenditures (e.g. capital expenditure) and to help in making decisions (Hilton 2001).

2.4. The Historical Background of Management Accounting

The historical background is the key. To understand the present, it is important to understand the history of MA (Scapens 2006). History is not just incidents in the past; it is alive in the present and may form the future (Pettigrew 1990). In this regard, Chandler (1992) revealed the paucity of the modern history of MA. Starting from the twentieth century, MA was essentially concerned with such cost-accounting issues as the allocation of products' costs because of the notion of 'different costs for different purposes' (Clark 1923). Greater efforts were expended on the vexed question of "How to account for overheads?" (Ashton *et al.* 1991). Thus, overheads, as well as labour and materials, began to be allocated and assigned to the various products in a systematic manner. Also the issue of how to account for waste and scrap was being actively tackled. In the 1920s, methods for standard costing were achieved (Ashton *et al.* 1991). In 1925, cost-accounting emerged as a managerial instrument to obtain the desired results (Garner 1976).

Fleischman and Parker (1992) argue that cost-accounting was crucial in four areas: cost control, overheads allocation, decision-making and standard costing. These practices were able to assist managers in reducing costs, maximizing profits and defending against competition. During the 1930s the focus on product costs was supplemented with work on budgets and responsibility accounting, and extended to divisional performance measurement and transferring pricing in the 1950s (Ashton *et al.* 1991). The late 1950s to the late 1960s was the heyday of MA research. The research usually involved using neoclassical economic theory to find optimal solutions to the problems of business decision-making and control (Ashton *et al.* 1991). Hence the models and techniques were attempts to 'programme' the decision-making and control processes, with the aim of maximizing shareholders' wealth; they included economic profit, marginal cost, ROI, economic value added and residual income. However, neoclassical theory pays little attention to the uncertainty about either the decisions' alternatives or outcomes (Ashton *et al.* 1991; Ryan *et al.* 2002).

The early 1970s was an era of economics-oriented mathematical models drawing on transaction cost economics (TCE) (Scapens 2006). MA researchers were extending the models developed in the 1960s, primarily to deal with uncertain outcomes and the costs of providing information and transactions (*ibid.*). There were linear programming models, cost variance investigation models, transfer pricing models, performance evaluation models and opportunity cost models, to name but a few (*ibid.*). The objective of this research was to

provide managers with a set of decision techniques to help them in their day-to-day work and to find optimal solutions (Scapens 1984; Ashton *et al.* 1991). Otley (1980) argued that there is no one optimal theoretical model for MASs applicable equally to all organizations in all circumstances, whereas the neo-classical and economic approaches held that there was an optimal accounting system design applicable to decision-makers.

However, MA is also crucial to strategic planning and control. Current MASs are inadequate and outdated for new settings (Kaplan 1984; 1986; Johnson and Kaplan 1987). New settings are the result of the new business environment and globalization including intensive competition, new organizational structure, free market, mergers and acquisitions, public reforms and new information technology. MA thus, “is too late, too aggregated and too distorted to be relevant for managers’ planning and control decisions” (Johnson and Kaplan 1987:1). Costing records began to be integrated with the financial records within an enlarged accounting system (Garner 1976). Hence MA is being subsumed in many organizations into their management information systems. As a result of this process, management accountants are currently losing their identity and becoming part of the rather larger information management team of the organization (Ryan and Hobson 1985).

Entering the 1980s, the debate on MA was witnessing some widespread contentions started by Kaplan (1983) in the US and Hopwood (1983) in Europe. On the one hand, Johnson and Kaplan (1987), in their acclaimed book ‘*Relevance lost*’, stated that MA had ‘lost its relevance’; as a result, MAPs were becoming subservient to financial accounting practices to fulfil external reporting purposes, and the traditional MAPs were failing to provide decision-makers with relevant information suitable for current business problems (Johnson and Kaplan 1987). Also, academic researchers failed to notice the growing obsolescence of management accounting systems; hence they contributed to management accounting’s loss of relevance (Kaplan 1983; 1984; 1986). Furthermore, ‘advanced’ MASs were not being widely used. MA was developed during the period 1825-1925⁶. However, MA has not changed and developed since 1925 despite advances in information technology and environment. Hence, the same practices were broadly being used by organizations even in the 1980s.

On the other hand, Hopwood (1987) argues that MA is not a static phenomenon but frequently changes over time to reflect new patterns and techniques of organizational

⁶ They stated that there have been many innovations during this period, especially in cost-accounting practices (e.g. flexible budget, standard costs, variance analysis, and transfer prices).

activities. Hence MA is a dynamic and heterogeneous phenomenon and MASs are changing over time. MA innovations are essential to match the continuing developments in the business environment (Hopwood 1983; 1987). He also showed that the role of MA became proactive instead of reactive in shaping the functions of an organization, especially in the areas of reappraisal of operation processes, strategies and subsequent implications for internal efficiency and effectiveness. Unlike Kaplan (1983), Hopwood stated that significant innovations were made in MASs between the 1950s and the 1960s, a mutation or boom period, such as zero-budgeting system⁷ (Hopwood 1972).

Since the publication of that book, many authors have advocated that contemporary organizations need to reconsider and re-examine their existing practices and replace them with new practices to face environmental change (e.g., Chua 1988; Roberts and Scapens 1990; Tayles and Drury 1994; Humphrey and Scapens 1996; Burns *et al.* 1999). In the same way, some authors described MA as being in crisis and stressed the need for change in MAPs (e.g., Bromwich and Bhimani 1989). However, Scapens points out that MA has changed over time although there is a gap in MA between theory and practice. As result, there is a lack of knowledge and understanding by accountants or practitioners of existing modern practices (Scapens 1984; 1985). In this light, MA researchers (e.g., Innes and Mitchell 1990; Spicer 1992; Collier and Gregory 1995; Burnes 1996; Ezzamel *et al.* 1996) began to recognize that many of the textbook techniques are not used, or are indeed irrelevant, in practice.

In the late 1980s and early 1990s, as a result of the progress of manufacturing processes based on advances in operations and systems; and unsuccessful attempts to use a normative and economic approach (as one side of neoclassical theory) to explain the variety of MAPs; in addition to these theories had tended to ignore internal control problems and organizational aspects; MA researchers have adopted insights from the positive economic approach (as another side of neoclassical theory). On the one hand, some researchers used agency theory to open up the black box and to explore new insights into managerial control within the organization (Ezzamel 1991). Other researchers used insights gained from behavioural and organizational theory including contingency theory to relate the design of MAPs to such organizational factors, such as size, technology, strategy and management styles (Ashton *et al.* 1991; Ryan *et al.* 2002). They believed that these practices cannot be designed

⁷ These innovations initially emerged in the aerospace and defence industries, (including zero base budgeting, project accounting, programme budgeting, and cost-benefit analysis).

independently of the characteristics and environmental context of the organization. Otley (1984) examined the interrelationship between organization theory and MA. He criticized much of the work on the grounds that it was ‘armchair theorizing’, which means theorizing depending on concepts derived from a reading of the organizational theory literature, rather than drawing on empirical data.

In the 1990s, there was a considerable amount of research examining contemporary accounting problems. New MASs in response to the changes in the business environment were introduced, including the following: activity-based costing (ABC) and activity-based management (ABM) (Bhimani and Pigott 1992; Cooper and Kaplan 1992; Soin *et al.* 2002); total quality management (TQM) (Powell 1995; Chenhall 1997; Connor 1997; Hoque 2003; Kaynak 2003; Prajogo and Sohal 2006); Balanced Scorecard (BSC) (Kaplan and Norton 1996; Kaplan and Norton 1996; Hoque and James 2000; Norreklit 2000; Kaplan and Norton 2001; Nørreklit 2003; Norreklit *et al.* 2008); Just In Time system (JIT) (Malone 2003; Barg and Tyler 2009; Libby and Lindsay 2010); and strategic management accounting (SMA) (Simmonds 1980; Simmonds 1981; Bromwich 1990; Dixon and Smith 1993; Collier and Gregory 1995; Dixon 1998; Cravens and Guilding 2001; Roslender and Hart 2003; Cinquini and Tenucci 2007; Lord 2007; Cadez and Guilding 2008; Langfield-Smith 2008; Cinquini and Tenucci 2010).

However, other researchers criticized the direction of the research. As Drury (1990), in response to Johnson and Kaplan’s “relevance lost”, stated that there is no evidence in accounting literature to indicate that MAPs should be followed for financial accounting practices; both are different in their aims and purposes. He also stated that academic researchers have been slow to respond to the effects of advanced manufacturing technology, due to a lack of research funding. However, the research approach began to change through an increased emphasis on explaining practices in use rather than developing sophisticated practices to improve them; furthermore, finance for empirical research projects became available from professional accounting bodies (Drury 1990; Tayles and Drury 1994; Drury and Tayles 1995).

Johnson (1992), in his book ‘*Relevance Regained*’, argued that MA had not lost but regained its relevance. He emphasizes that the key to long-run competitiveness in any business is total customer satisfaction; hence, each organization must change its ways of doing business to

become competitive in the current global economy. He did not mean that businesses must develop their MAPs in order to compete in current global competitive environment. Rather, businesses had to remove top-down accounting-based controls. At the same time, accounting-based control information encourages employees to manipulate processes for financial ends. Global competition requires organizations to apply bottom-up information, which empowers the employees to control processes for customer satisfaction.

Success in today's complex and competitive business environment depends on the ability to achieve strategic change. Success thus depends not on introducing new systems but on the ability to make the necessary changes within the organization before adopting new systems or practices. This guides organizational actors to work clearly towards the organizational strategy (Scapens 1994; Hardy 1996; Burns *et al.* 1999). In this light, Atkinson *et al.*, (1997) state that new MASs have faced a number of problems in their implementation, such as ABC. So, it's important to adapt new systems to new business environments by establishing some changes inside the organization before applying the new system. Scapens and Burns (2000) highlight that change occurs in MASs and practices within the organization, but this change is in methods used, not in adopting the new system⁸.

Thus, organizational theories and cross-sectional studies can only identify the relationships between MAPs and given variables at particular points of time, without explaining how these relationships came about. Hence, they have not constructed a deeper understanding of how organizations and their systems react to contingencies. Furthermore, these theories do not study MA as processes, as they seek to generalize the results (Otley 1980; Dury *et al.* 1993; Scapens 1994). Hence, their results are still fragmentary and contradictory (Wickramasinghe and Alawattage 2007). Explanations of this nature require interpretive studies that understand the relationships within the real context over a long period of time (Scapens and Burns 2000; Ryan *et al.* 2002; Scapens *et al.* 2003).

Ryan *et al.* (2002) argue that researchers have been increasingly interested in exploring the use of MAPs and/or developing new systems. A considerable number of studies have focused on describing contextual relations with MAPs, with no attempt to examine them in their context. Scapens (1994), in his paper titled '*Never mind the gap*', stressed that researchers should

⁸ Accordingly they state that we need to answer this question: Why have MAPs and systems in particular been slow to change, despite the rapidly changing technological and organizational environment in recent years?

study and interpret MAPs within their social context rather than focusing on the gap between theory and practice. MA is socially constructed and comprises a set of rules that may be institutionalized and routinized. Furthermore, many existing theories study MA as an outcome not as processes, and there are no attempts to develop the existing theories (Scapens and Burns 2000; Scapens *et al.* 2003). Current research is now more directed to understanding the practice, whereas the previous research was more concerned with prescribing managerial behavior and developing normative models (Scapens 2006; Scapens 2008).

In response to these criticisms, MA researchers have started to use social theories to explain the relationships within specific organizations over a long period of time. On the one hand, a number of MA researchers have been using structuration theory to study MAPs and systems (e.g. Macintosh and Scapens 1990; Macintosh and Scapens 1991; Boland 1996; Barley and Tolbert 1997; Hodgson 1999). Structuration theory was developed by Giddens in the late 1970s (see Giddens 1976; 1979; 1984), and it is concerned with examining the interaction between individuals' capability to make choices (Agency) and the reproduction of social structures (Structure). Thus, it examines the duality between structure and agency (Hodgson 1999; Baxter and Chua 2003). However, structuration theory has had only a limited impact on the nature of MAPs, with only brief references in the literature (Scapens and Macintosh 1996; Baxter and Chua 2003). Archer (1995) argues that Giddens' approach has had a limited impact because it ignores historical time, and the interaction between structure and agency can never be measured without the time factor. Also, Scapens (1994, 2006) contends that structuration theory is not helpful for exploring the processes of MAC.

On the other hand, some researchers have adopted Actor Network Theory (ANT) to examine the diffusion of MAPs (e.g., Tatnall and Gilding 1999; Briers and Chua 2001; Alcouffe *et al.* 2008; Tatnall 2010). ANT is also called sociological theory. It was developed by Latour in the early 1980s and is concerned with understanding accounting's innovative diffusion in the context of networks of human and non-human actors (or social and technical elements) (Latour and Biezunski 1987; Latour 2005). ANT supposes that each actor, both human and non-human (systems), is the same inside the network, and this actor is viewed as the full network including other sub-elements. Hence ANT examines each actor as a "black box" without going into details. Consequently, MA researchers find it difficult to analyze the elements of each actor separately in detail, as it is necessary to cope with the infinity network (Tatnall and Gilding 1999; Latour 2005). The ANT examines MAPs or innovations as a

“black box” without opening it or paying attention to the factors that may affect these innovations. It, too, is unhelpful for explaining MAC as processes.

However, Hodgson (1998) and Scapens (2006) point out that various previous theories did not include a set of assumptions to examine the institutional complexity and actual processes, because the core assumptions of these theories are grounded in neoclassical economics. Also, they have focused on examining the diffusion of more sophisticated practices, while success meant not only finding new practices but being able to implement them by making the necessary changes within the organization (Hardy 1996). However, the *institutional theory* has cultural and anthropological dimensions that provide us with a basis for understanding MAC as institutionalized routines and for explaining the interaction between MA and social context (Scapens 1994). The study of institutions is now witnessing a renaissance in the social sciences (DiMaggio and Powell 1991; Scapens and Burns 2000).

Recently and beyond the 2000s, Scapens (2004) and other authors have criticized researchers' dependence on cross-sectional and questionnaire surveys of organizations. He has encouraged researchers to undertake case-studies and interviews to investigate MAPs, stating that “Case studies have become a popular method in accounting research” (*ibid.*:258). The current interest of MA researchers now lies in explaining and interpreting MAC over a long period of time based on institutional theories (Scapens and Bromwich 2001). MASs are socially constructed despite their technical aspects, but it is important to examine them within their social and organizational context (Scapens and Burns 2000; Scapens 2006). Research must also describe the problems and factors associated with introducing new MAPs, such as risk management, TQM, ABC and BSC (Kaplan 1998).

An institutional framework could serve as a basis for understanding and analyzing processes of MAC after the introduction of NPM reforms. Specifically, to increase the understanding of the processes of change within/around organizations, such as the factors of their introduction and their effects, it could be interesting to provide a broad analysis of MAC in the public sector that is based on institutional theory (Ter Bogt 2008). It seems that, thus far, little pragmatic research has been conducted with respect to the possible contributions of institutionalism to an understanding of gradual MAC especially in the public sector. However, institutional theory may provide a basis to interpret and analyze the factors for establishing NPM reforms – such as accounting changes and the change processes in public sector

organizations, and their effects (Nor-Aziah and Scapens 2007; Gomes *et al.* 2008; Ter Bogt 2008). As a result, this study adopts institutional perspectives to interpret the processes of MAC in the Jordanian Customs Organization (JCO), as an important evidence from public sector.

2.5. Understanding Organizational Change

2.5.1. The Meaning of Change

The meaning of change is problematic (Pettigrew 1990; Huber and Van de Ven 1995). Change is a generic concept that may include various aspects and dimensions⁹. Change may take different forms, including becoming new, becoming or making different, using or taking another shape instead, modification or alteration of new experience, and shift of one thing to another. Accordingly, these forms embody various types of change and signify that change isn't a uniform event, and may differ in its importance, nature and effects (Pearsall 1999; Nor-Aziah and Scapens 2007). Thus, things change progressively over time, and we may or may not feel that they have changed. Thus, change is an important factor in our lifestyles helping us to renew and make different sense of our life and our systems, and to continue and survive, which also applies to organizational life and systems. Change only occurs when dissatisfied groups recognize the availability of alternative manners of working in which they can better express their interests (Ma and Tayles 2009).

There is no general definition of change. Goodman and Kurke (1982) argue that the meaning of change refers to the aim of the change; that is, what is to be made different. This can be attitudes, beliefs, behavior of individuals or interaction patterns of groups in an organization. In this way, change can be viewed as the alteration from one state to another. In the same way, Dawson (1994:10) defines change in an organization as "any alteration in tasks or activities", but change can also be seen as an ongoing process which can be either progressive or regressive and have both intended and unintended outcomes. Kanter *et al.* (1992) argue that the standpoints of those who think they are creating change may be different from those who will be affected by these changes. This view is similar to that of Dent (1981) who perceives organizational change as the process of uncoupling activities from a particular culture and re-coupling them to another culture. Furthermore, Kanter *et al.* (1992) maintained that intentional change might be a decision to formalize the kind of activity that had existed in the background of the organization all along.

⁹ Concise Definition by Oxford Dictionary, 10th Edition, (1999: 235).

Pettigrew (2007) maintains that change has many aspects. Change involves the pace, quantity and quality of change. He also argues that the use of different theories of change would lead the researcher to focus on different aspects of change. Therefore, Pettigrew (1990) concludes that the meaning of change depends on the definition used by the individual researcher in his or her theoretical framework. As such, he advises researchers to define what they mean by change in their research design. As a result of this variation, MA researchers may potentially study very different types of change (Nor-Aziah and Scapens 2007). According to Wickramasinghe and Alawattage (2007), change is deemed as a learning methodology. Changes might happen deliberately or unintentionally in terms of time and space in which they occur. Thus, understanding change within its historical and geographical contexts would constitute realistic knowledge of MA (*ibid.*).

Engles (1999: 54) notes that “nothing remains what, where and as it was, but everything moves, changes, comes into being and passes away”. In the same way, “The world as we have created it is a process of our thinking. It cannot be changed without changing our thinking” (Albert Einstein and cited by, Hannan and Freeman 1984). Thus, change has become an increasingly important topic, which is fashionable to write about. Attention is now turning to issues of change; i.e. how can change be more effectively initiated, managed, implemented and responded to? (Stickland 1998). Importantly no change can be easily isolated and confined; it interacts with and is affected by political, economic, technological and social affairs (Keohane and Nye 1989). This makes change phenomena arguably more significant nowadays than ever before (Stickland 1998).

Consequently, the study of change, which is the main aim of this study, can expand the understanding of dynamics of management accounting change. It directs the attention to recognize that management accounting is a social science rather than a mere set of techniques available for practice. The idea of change shows how management accounting relates to social systems, within which dynamic relations are manifested. As a consequence, traditional MASs tend to be changed by new ones, and new systems become maintained and upgraded when new challenges from the dynamic environment require it. Such a process of change can be reflected by asking how MAPs have emerged, developed, and been changed. This means that neither MAPs nor interrelated social and organizational contexts can be understood through straightforward explanation unless we focus on the change dimensions (Scapens 2006; Wickramasinghe and Alawattage 2007).

2.5.2. Organizational Change

Organizational change issues have been a central concern of research over the last few decades, especially in management and accounting. Although many studies have focused on organizational change, there has been no consensus on its definition. Dawson (2003 P:11) defines organizational change simply as “new ways of organizing and working”. It may probably not be regarded as significant if the products or services and markets are stable, as the need for change is rare. Such stability has not existed in practice, and change is consequently an ever-present attribute of organizational life; many authors have explained that the scale, pace and significance of change are the main topics of interest nowadays (Burnes 1996). Mohrman *et al.* (1989: 2) defined organizational change as “change in the charter of an organization that significantly alters its performance”. This definition consists of two important constructs: change in character and change in performance.

Organizational change in the character requires changes in the organization’s design and processes. Organizational design includes organizational strategies, systems, structures, configurations of technology, formal information and decision-making systems, and human resource systems. Meanwhile change in performance is a wider term that may refer to the systems’ effectiveness as measured by a number of aspects, or to the nature of the aspects themselves, such as an organization’s relationships with its environment, the way it transforms inputs into outputs, the nature of its outputs, and its design and processes. A change more often becomes part of an integrated system rather than a stand-alone system (Mohrman *et al.* 1989).

Change is a phenomenon of time (Ford and Ford 1994). Hence, it is important to understand the perception of change over time in one or more aspects of an organization (Van de Ven and Poole 1995). Understanding organizational change refers to understanding alterations within organizations at the widest level among individuals and groups, and at the collective level across the whole organization (Burnes 1996). Hence, organizational change involves difference “in how an organization functions, who its members and leaders are, what form it takes, or how it allocates its resources” (Huber *et al.* 1993:216). From the perspective of organizational development, change is “a set of behavioural science-based theories, values, strategies, and techniques aimed at the planned change of the organizational work setting for the purpose of enhancing individual development and improving organizational performance,

through the alteration of organizational members, on-the-job behaviours” (Porras and Robertson 1992:723).

Consequently, organizational change occurs when there is a change in structure and operations, or any change in management control systems, new information systems, and MASSs. Individualism and realism argue that organizational change happens when individuals’ actions modify the organization in relation to selected criteria. For example, organizations will be more efficient after the adoption of ABC system which explains how the allocation costs are treated. Contextualism and socio-constructivism see change as a process of institutionalization created during the implementation of rules, routines and norms. For example, using ABC is a process of homogenization that directs organizations towards adopting such technologies resulting from contextual urgency; both sides may have diverse epistemological emphasis, but they share the new terms of change and the entities involved (Quattrone and Hopper 2001).

Organizational change is conceptualized as an effort at becoming less homogenous and responsive to the multiplicity of various constituents within the environment. Thus, the post-modern context requires organizations to change; there is no way to avoid this cycle (Kezar 2001). Understanding why a change is taking place is an essential prerequisite for the analysis and discussion of change. The two different pressures or sources of change typically noted are: (1) external environment and (2) internal environment (Burnes 1996; Rajagopalan and Spreitzer 1997). The external environment can thus play an active role in organizational change. Although organizational change is often a response to external factors, the impetus for the change is typically internal (Carnall 2007).

The evolutionary framework of change focuses on the interaction between the external environment and an organization. This interaction is seen as the major impetus for change. Internal sources that are noted for initiating change include gathering of surplus resources, culture and institutions, readiness and willingness of at least a dominant coalition to endure change (e.g. power and politics mobilization), and transformational leadership. The main assumption underlying evolutionary theories including institutional theory is that change is a response to internal and external circumstances, situational variables, and the environment faced by each organization (Morgan 1986). Social systems as diversified, interdependent,

complex systems evolve naturally over time as a result of the interaction between internal processes and external demands (Morgan 1986).

According to the internal environment, the change processes tend to be long-term and slow. Change within an organization entails alteration of values, beliefs, institutions, myths, and rituals (Schein 1985). Change occurs because organizational members see a need to grow, learn, and change their behavior. In cultural aspects, the change process occurs naturally as a response to alterations in the human environment; organizational cultures are constantly changing (Morgan 1986). However, organizations have social, technical, economic and cultural aspects as well as a political dimension. Social and political dynamics differ from one organization to another (Pettigrew and McNulty 1995). The change process is a key element in the roles of most functional and general managers at all levels of the organizational structure, and they usually combine change responsibilities with their daily work. Hence organizational structure creates roles and departments which compete with one another, and organizational decisions cannot be resolved by reason and logic alone but depend on the values, institutions, politics and preferences of the key members involved (Buchanan and Badham 1999).

Most critical organizational decisions are a result of social and political processes that are only partly influenced by evident and reasonable arguments, which are usually shaped by ‘the pulling and hauling that is politics’ (Mangham 1979:17). Similarly, organizational change is about renegotiating certain dominant values and institutions in the organization in order to introduce new systems and subsystems (Kakabadse and Parker 1984). Accordingly, power, politics and organizational change are inextricably linked. Organizational change creates uncertainty and ambiguity among organizational members as they ponder how their jobs will change, how their workloads will be affected, and how their relationships with colleagues will be enhanced or damaged. Here, conflict or resistance can occur as a result of poor communication (Buchanan and Badham 1999). Organizational actors deploy power and political tactics when necessary to introduce the organizational change agenda, potentially in the face of conflict and resistance (Laver 1997). Consequently, power mobilization has to be considered as the first order of the change.

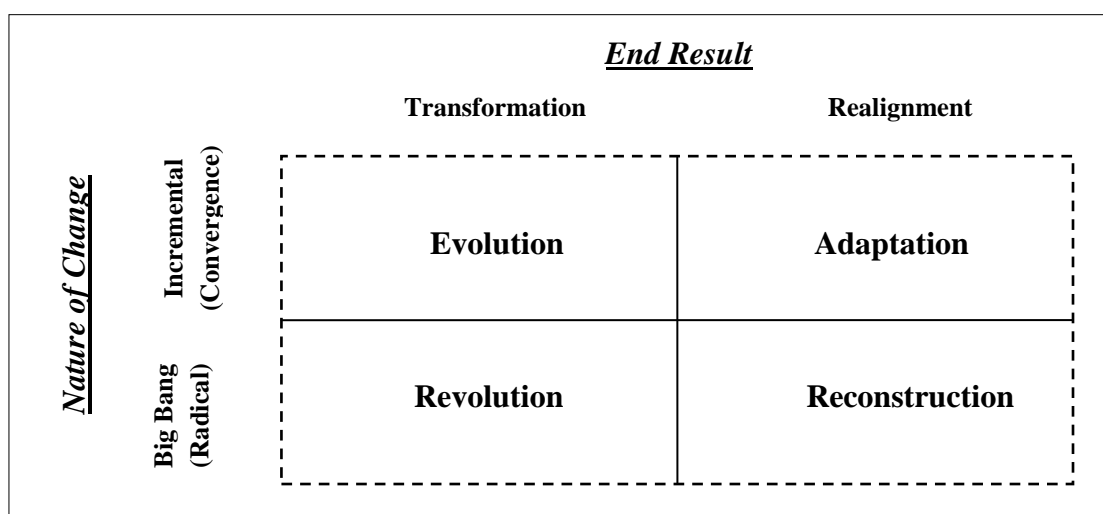
Organizational change cannot be understood without knowledge of the role of power and political behavior. Power and political behavior are both positive and negative. Understanding

of power and political behavior may thus benefit those who deploy such strategies and tactics, and support those who seek to challenge and counter such change (Buchanan and Badham 1999). Although political processes shape change, there is a need to gain some insight into how this process occurs, at the same time, there is a little knowledge about how politics overlap with other aspects of change. Do politics hinder or enable adaptability? How does the environment affect politics? How do politics influence organizational character? As notions of power and politics are changing, how might politics be an enabler of reasonable change? (Kezar 2001).

2.5.3. Types of Organizational Change

Organizational change can be categorized in three dimensions: pace, scope and planned-emergent (Senior and Swailes 2010). Tushman *et al.* (1986) referring to previous studies, proposed a framework of organizational change that includes incremental or convergence change punctuated by discontinuous changes. Accordingly, Balogun *et al.* (2004) suggest that change paths can be undertaken in terms of pace and scope of change as four types. The two dimensions are scope (incremental or big-bang) and scale (realignment or transformation) (see figure 2.2). These types of change have a general aim of maintaining the fit between organizational strategy, people, structure and processes. Organizational change is thus either an on-going process that is characterized by incremental change including transformation (or realignment) in one or more departments, or a radical change (revolutionary or reconstruction) in the organization as a whole.

Figure (2-2) Types of Organizational Change



(Source: Balogun *et al.* 2008:20)

In the same way, Greenwood and Hinings (1996) proposed two dimensions of change. Change is either convergent or radical in its scope and either evolutionary or revolutionary in its pace. The Greenwood and Hinings (1996) notion of evolutionary pace was contained within Weick and Quinn's (1999) description of 'continuous' change, and the earlier authors' notion of revolutionary change incorporates the notion of 'episodic' change that Weick and Quinn (1999) described. Accordingly, Plowman *et al.* (2007) explain that organizational change can be classified in terms of its pace or nature of change (continuous or episodic) and its scope or the desired results (convergence or radical). Each type of change differs from another in accordance with the dimensions of change as depicted in following figure (2.3).

Figure (2-3) Conceptualization of Four Types of Change

		<u>Scope</u>	
		Convergent	Radical
<u>Pace</u>	Continuous	<p>(1)</p> <p>Driver of change: Minor system instability</p> <p>Form of Change: Small adaptations with existing framework.</p> <p>Nature of Change: <i>Emergent</i> and local as members improvise and/or learn.</p> <p>Feedback: System uses positive feedback, which encourages deviations and adaptations.</p> <p>Type of connections: loose coupling which keeps local adaptation from amplifying.</p>	<p>(4)</p> <p>Driver of change: Major System Instability</p> <p>Form of Change: Pattern of adaptations that is frame bending.</p> <p>Nature of Change: <i>Emergent</i> and system-wide as adaptations accumulate into patterns.</p> <p>Feedback: System uses positive and negative feedback, which pull system in two directions-toward bounded instability.</p> <p>Type of connections: Tight coupling which enables amplification of local adaptation into radical change.</p>
	Episodic	<p>(2)</p> <p>Driver of change: Minor inertia</p> <p>Form of Change: A minor replacement that occurs within existing framework.</p> <p>Nature of Change: <i>Intended</i> and local.</p> <p>Feedback: System uses negative feedback, which highlights need for minor replacement.</p> <p>Type of connections: loose coupling requires local minor replacements.</p>	<p>(3)</p> <p>Driver of change: Major inertia</p> <p>Form of Change: A dramatic replacement that is frame bending.</p> <p>Nature of Change: <i>Intended</i> and system-wide.</p> <p>Feedback: System uses negative feedback, which highlights need for major replacement.</p> <p>Type of connections: Tight coupling requires system-wide radical replacements.</p>

(Source: Plowman *et al.* 2007: 518)

The Figure (2.3) presents four different ways of conceptualizing organizational change in terms of whether it is (1) continuous or episodic (Weick and Quinn 1999) and (2) convergent or radical (Greenwood and Hinings 1996). The four types of change differ along with the following dimensions: the driver of change, either inertia or instability; the form of change,

either adaptation or replacement; the nature of change, either emergent or intended (planned); and types of feedback and connections. Types of feedback that enable a change and drive the system surrounding it are conceptualized as either negative (reducing deviations from the system's current path), positive (encouraging deviations) (Maruyama 1963; Weick 1979), or both (Stacey 1995; Chiles *et al.* 2004); and types of connections in the system are either loose or tight (Plowman *et al.* 2007).

In this way, organizational change can be either *emergent* change (convergent and evolutionary) which is characterized as continuous, small in nature, cumulative within the existing configuration, having no beginning and end point, and unintended and adaptable, or *planned* change (radical and revolutionary) which is characterized as episodic, a replacement, fast-paced, infrequent and not continuous, frame-bending (blueprint), having a discrete beginning and end point, and intended and controllable by managers (Plowman *et al.* 2007; Senior and Swailes 2010). Thus, planned change is deliberate actions designed to move an organization or part of one from one state to another; thus this change is managed by managers. Emergent change, however, is unintentional actions of on-going operations arising from experimentation and adaptation; hence this change is seen as that for which managers create the true climate (Senior and Swailes 2010).

Other researchers have classified organizational change into two major types: large-scale change (radical) and small-scale change (incremental). Large-scale change refers to the depth of the change (accompanied by a widespread shift in members' fundamental beliefs and values); the organization is usually large or complex, and the pervasiveness of the change affects the whole organization. In contrast, small-scale change is made to fine-tune organizational subsystems so they fit together better; it is accompanied by progressive change in the beliefs and values of organizational members (Mohrman *et al.* 1989). They further argue that large-scale change must be managed by the top management. Hence it can reduce uncertainty about organizational goals by resolving conflicts and supporting the change actively in the correct direction. However, organizations are also transformed in the process. Organizations develop and redefine their goals and strategies while making decisions and adapting to environmental pressures; small-scale changes can lead to larger ones, and initial intent can be completely lost (Zald and Denton 1963).

The distinction between incremental (emergent) and radical (planned) change was first articulated by Watzlawick *et al.* (1974) and Bateson (1972) as the distinction between first- and second-order change continues to guide theory construction and data collection (Bartunek 1993; Roach and Bednar 1997). On the one hand, first-order change involves minor alterations and improvements to one or a few aspects of the organization; it does not transform the organization's core. Change happens at individual or group levels. It is characterized by evolutionary change, emergent process, developmental or on-going efforts, single-loop learning (allowing the organization to continue its current policies or achieve its existing objectives), and incremental approaches (Levy and Merry 1986; Kezar 2001).

On the other hand, second-order change is transformational (radical) change: the underlying values or mission, strategies, culture, working processes, and structure of the organizational change (Levy and Merry 1986). The organization changes at its core, and the change is irrevocable (planned). Second-order change is often precipitated by a crisis or emergency situation. Second-order change tends to be multidimensional (i.e. many facets of the organizational change), multilevel (among individuals, groups, and the overall organizational change) and episodic. It may seem irrational because the change is rooted in an unfamiliar logic or worldview, involve double-loop learning (examining and modifying mismatches in governing variables, which are preferred states that individuals endeavour to satisfy) and result in a paradigmatic shift (Argyris 1982; Levy and Merry 1986; Kezar 2001).

Scholars have thus classified change as revolutionary (planned) or evolutionary (emergent) in their attempts to classify differences in timing (Levy and Merry 1986; Gersick 1991). Revolutionary change departs considerably from the existing organization and generally occurs suddenly within a planned target, with radical changes within the mission, culture, and structure. Revolutionary change tends to be associated with second-order change, but it happens rapidly. In contrast, evolutionary changes are seen as natural and emergent within an existing frame and tend to alter the mission and values over time (Levy and Merry 1986; Gersick 1991). Consequently, all of these types of organizational change are located within two dominant perspectives: the planned and emergent approaches.

2.5.4. Two Dominant Approaches to Organizational Change

Change approaches need to be aligned with types of change. Although there is currently little empirical evidence to support this idea, it is worth taking into consideration within the

organizational change debate. Do applicable change approaches vary with the changing political, social, and economic forces as well as internal pressures that affect organizational change, including MAC? An institutional and sociological view of change would suggest this may be true (Kezar 2001; Clarke and Lapsley 2004; Clark and Soulsby 2007). The two dominant approaches used to explain organizational change in general and MAC in particular are the planned approach and emergent approach.

To simplify the difference between the two approaches:

A video tape recorder can give us a better series of episodes or events about the phenomena as a comprehensive picture (emergent) than a snapshot picture (planned).

2.5.4.1. Planned Approach to Change (Reflecting Rationality and Intentional Change)

The planned approach focuses on sources or reasons for change. It refers to processes and activities that are intended to change groups or individuals, organizational structure and processes (Goodman and Kurke 1982). This approach is based on the pioneering work of Kurt Lewin (1958), and it views organizational change as a process of moving from one fixed state to another by using a series of expected and pre-planned stages (Burnes 1996). Lewin's (1958) model of change includes three stages: unfreezing the present state, moving to the new state, and refreezing the new state¹⁰. Some researchers have developed Lewin's work by adding additional phases (e.g. Lippitt *et al.* 1958; Cummings and Huse 1989). Cummings and Huse explain that "the concept of planned change implies that an organization exists in different states at different times and that planned movement can occur from one state to another" (1989:51). However, Schein (1993; 1996) emphasizes that Lewin's model assumes that "you cannot understand a system until you try to change it" (1996:34), and "one rarely fully appreciates or understands a situation until after it has changed" (1993: 550).

The planned approach to change thus explains situations where a change agent takes deliberate actions with the aim of moving an organization or part of it from one state to another, such as to a new structure or to altered working patterns (Burnes 2004; Senior and Swailes 2010). Burnes (1996) and Elrod II and Tippett (2002) emphasize that, to understand planned change, it is not enough merely to understand the stages that bring about change; there must also be an appreciation of the processes that an organization must pass through in

¹⁰ Burnes explains that "Unfreezing involves reducing those forces maintaining the organization's behaviour at its present and requires some form of confrontation meeting or re-education process for those involved. Having analysed the present situation, identified alternatives and selected the most appropriate action, action is then necessary to move to the more desirable state of affairs. Refreezing, in the final stage, seeks to stabilise the organization in a new state of equilibrium in order to ensure that the new ways of working are relatively safe from regression" (see Burnes 2000:271).

order to move from an unsatisfactory present state to an identified desired future state. Although the planned approach has contributed to developing organizational change literature, but it has many limitations and criticisms. Dawson (1994) argues that the dominant planned approach to organizational change is unable to cope with a dynamic environment and it may not be able to answer the questions related to real change and how the process was managed. Hence, it ignores internal processes and external pressures and it has limited assumptions to deal with contemporary organizations within changing and dynamic environments. Also, Burnes (2004) argues that the planned approach has limited applicability to organizational change due to the focus on three steps as mentioned. It ignores the changing and dynamic nature of the environment, and it supposes that organizations work under stable environments; thus, rejection of the change is a continuous and open-ended process.

Wilson (1992) criticizes the view that change can be planned systematically and logically. Hence, this approach is a managerialistic view that relies exclusively on the manager's role as a single view, through prior preparation of timetables, methods and objectives. This view assumes that a certain path of change ought to be followed and that the environment is known. Accordingly, this view does not consider the context in which change takes place, such as cultural and political factors that may influence the change path. In the same way, Dunphy and Stace (1993) point out that this approach ensures common agreement among all actors or interested parties involved in the intended change¹¹. It thus ignores other organizational factors, such as conflict or resistance, the role of power and politics. Furthermore, the planned approach assumes rationality and optimalization, which holds that there is only one type of change appropriate for all organizations in all situations and at all times. This assumption is very similar to neoclassical economic assumptions. As result of these criticisms and limitations of the planned approach, an alternative approach is needed in congruence with current situations and dynamic environment. This alternative view has been given a number of different labels, for instance, continuous improvement or organizational learning. However, this approach is mostly referred to as the emergent approach (Pfeffer 1982; Wilson 1992; Mabey and Mayon-White 1993), contextual approach (Pettigrew 1987; Van de Ven and Huber 1990) or processual approach (Dawson 1994; Soin *et al.* 2002).

¹¹ Dunphy and Stace point out that this approach assumes "trubulent times demand different responses in varied circumstances" (1993:905).

2.5.4.2. Emergent (or Contextual/Processual) Approach to Change

The emergent approach, a relatively new idea compared to the planned approach, has been linked with the concept of organizations as open systems (Wilson 1992). It came to the fore in the 1980s, in contrast to the approach of planned change (Burnes 1996). The emergent approach tends to see change as driven from the bottom-up rather than the top-down (Burnes 1996; 2004; Bamford and Forrester 2003). The emergent approach stresses that change is a continuous process and an open-ended system of adaptation to changing conditions and circumstances (Dawson 1994; Burnes 1996; 2004). Hence, actions do not always go to plan in planned change and some ‘unintended consequences’ ensue (Senior and Swailes 2010). Hence, the emergent approach stresses the unpredictable nature of change, and views it as a process that develops through the correlation of a multitude of factors within an organization. Apart from being a method of altering organizational practices and structures, change is perceived as a process of learning (Dunphy and Stace 1993; Dawson 1994; Burnes 1996; Altman and Iles 1998; Todnem By 2005).

According to this approach, the organizational system is regularly sensitive to its environment in order to continuously change with the aim of maintaining its institutional stability and goals. In so doing, change should often emerge naturally (Johnson 1988). Habits and patterns of behavior identifying the best way to do things with respect to values that have been developed during periods of converging change can contribute extensively to the success of the organization (Tushman *et al.* 1986). In this regard, Luecke (2003) proposes that a state of continuous change can become a routine in its own right, and Leifer (1989) recognizes change as a normal and natural response to internal and environmental conditions. Burnes (2004) explains that the on-going process of change is concerned with organization-wide strategies and systems, and the ability to continuously adapt these to the pressures of both the external and internal environments.

The proponents of the emergent approach believe that the uncertainty of both the external and internal environments makes this approach more relevant than the planned approach (Bamford and Forrester 2003). To deal with the complexity and uncertainty of the environment it is recommended that organizations seek to become open learning systems where strategy development and change emerges from the way an organization as a whole acquires, interprets and processes information about the environment (Dunphy and Stace 1993). The approach emphasizes the importance of “extensive and in-depth understanding of

strategy, structure, systems, people, style and culture, and how these can function either as sources of inertia that can block change, or alternatively, as levers [forces] to encourage an effective change process” (Burnes 1996:14). Moreover, Burnes also points out that:

“Successful change is less dependent on detailed plans and projections than on reaching an understanding of the complexity of the issues concerned and identifying the range of available options. It can, therefore, be suggested that the emergent approach to change is more concerned with change readiness and facilitating for change than to provide specific pre-planned steps for each change project and initiative” (1996:13).

In the same way, contextualists have argued that change is phenomena that happen through the interplay between institutional pressures, isomorphisms, institutions and routines (Pettigrew 1987; Tsamenyi *et al.* 2006). The contextual approach is derived particularly from the works of Pettigrew (1985b; 1987). Thus, Burnes (1996) and Pettigrew (1985b) perceive that contextual as well as emergent approaches to change as process unfold through the interaction of various factors (context, content and political processes) within a specific organization. They have argued that the contextual approach is a holistic view of change including other types of approaches, especially the processual and historical approaches; it also explains internal and external processes that may affect change. Dawson (1994) has used a processual approach to study change. He stated that this approach is less prescriptive and more analytical; it has the ability to provide thorough understanding of the problems and factors of managing change within a complex environment. The processual approach as part of contextual approach focuses on internal processes of change over time series (historical), but the contextual model includes both of them, as well as external demands.

Advocates of the emergent approach, who adopt a contextual and processual view of change, tend to stress that there is no clear path for managing organizational changes successfully because of temporal and contextual factors, time pressures and situational variables (Burnes 1996). Change thus cannot be seen “as a rational series of decision-making activities and events [...] nor as a single reaction to adverse contingent circumstances” (Dawson 1994:181). Therefore, as mentioned earlier, the contextual approach to change includes both external and internal organizational factors. Accordingly, contextualists believe that power, politics and culture play a key role in the process of organizational change (Pettigrew 1987; Burnes 1996). In contrast, proponents of the planned approach have failed to incorporate the political and cultural factors of change. Some scholars argue that this ‘aversion’ to discussing power, politics and culture has limited our understanding of change and hindered our ability to

manage change effectively (Pettigrew 1987; Wilson 1992; Pettigrew and Whipp 1993; Dawson 1994; Burnes 1996; Hardy 1996).

The proponents of the contextual approach criticize the planned approach which supposes there is a discrete beginning, middle and end point to managing change. For example, Dawson (1994) criticizes that organizational and contingency theories, which are grounded in the planned approach, are too simplistic because they disregard the dynamic and complex nature of the change processes. The contextual approach supposes that there is no beginning and ending to the change process, which proceeds on an on-going basis (Burns and Scapens 2000). Consequently, Pettigrew explains:

“A contextualist analysis of a process such as change draws on phenomena at vertical and horizontal levels of analysis and the interconnections between those levels through time. The vertical level refers to the interdependence between higher or lower levels of analysis upon phenomena to be explained at some further levels, for example the impact of a changing socio-economic context on features or intra-organizational context and interest group behaviour. The horizontal level refers to the sequential interconnectedness among phenomena in historical, present, and future time. An approach that offers both multilevel or vertical analysis and processual, or horizontal, analysis is said to be contextualist in character” (Pettigrew 1995:94).

Most existing approaches cannot provide an extensive and deep understanding of processes of change (Huber and Van de Ven 1995). At the same time, complexities in organizational structure and systems cannot be understood only at organizational level, and holistic understanding of change processes at multiple levels (endogenous and exogenous levels) over time requires another sound research approach for understanding organizational change (*ibid.*). Thus, change has been seen as inherent in biological systems: all organizations are continually changing (Weick and Quinn 1999). The emphasis, as we mentioned in the open-systems model, is on being aware of solutions inherent in the system through feedback loops, resilience and self-organizing, thus allowing structures to emerge within the system. Weick (1991) suggests that planned change is mainly irrelevant and unhelpful, and that organizations should respond naturally to environmental demands. Hence, change is flexible, improvisational and focused on self-design (*ibid.*). No recipe is offered; understanding change requires the development of a common language (key insights into the change process) and conceptualization of change that is context-based (Kezar 2001). Accordingly, Pettigrew (1987:655) describes the approach of change that is relevant for understanding management accounting and organizational change as “historical, processual, and contextual in character”.

2.6. Understanding Management Accounting Change

2.6.1. Management Accounting Change

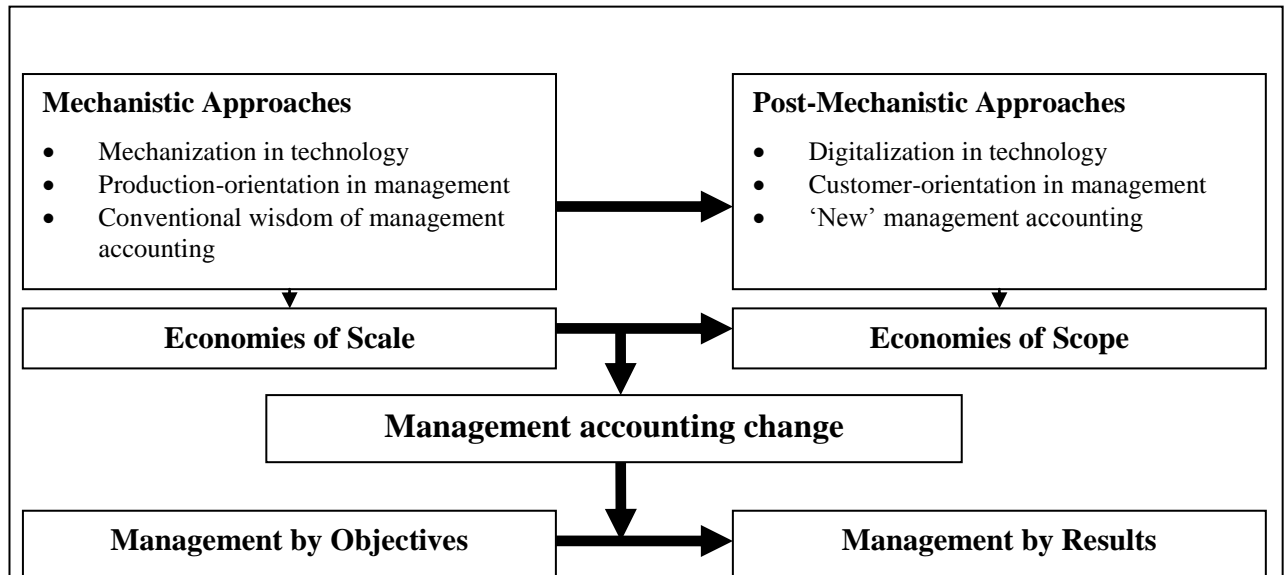
MA is an integral part of the management process through its focus on the optimal use of organizational resources (Malmi and Brown 2008; Macintosh and Quattrone 2009). MA refers to managerial processes and technologies that add value to organizations by achieving the effective use of resources, activities and people in a dynamic and/or competitive context (Hopper and Powell 1985; Bunce *et al.* 1995; Stinchcombe 2002). Accordingly, MASs and practices constitute organizational systems and practices (Cooper *et al.* 1996; Burns and Scapens 2000; Baines and Langfield-Smith 2003). In other words, the processes of MAC play a significant part in shaping the organizational change processes (Scapens and Jazayeri 2003; Senior and Swailes 2010). Hence, MAC is usually seen ‘in terms of organizational reform and improvement’ (Hopwood 1987:209), specifically the introduction of new accounting systems in order to obtain better results or enable managers to control and make better decisions (Yazdifar 2004). Consequently, managing organizational change in general and MAC in particular requires a comprehensive understanding of the existing context of the organization, especially organizational routines and institutions (Burns and Scapens 2000).

Nowadays, organizations recognize and have good experience of the necessary changes in their organizational designs, information systems, and competitive strategies (Boynton *et al.* 1993; Pettigrew *et al.* 2001), in particular the technology that influences accounting innovation and change in the assembly and analysis of information within and between organizations. Such change has implications for MA, and MAC is potentially an integral part of organizational life in today’s global and technology-driven world (Burns and Vaivio 2001; Doyle and Schools 2007; Carter 2008). Hopwood (1987) affirmed that the knowledge about processes of accounting change is still in its infancy. Despite the existing studies on change, Quattrone and Hopper (2001) stated that ‘little is known about what is change’ in management accounting.

Wickramasinghe and Alawattage (2007) argue that the orientation of MA changed in the late 1980s from a mechanistic approach (i.e. production orientation) with conventional wisdom to a post-mechanistic approach aimed at satisfying various needs of customers by using new MA techniques, such as TQM and JIT (see figure 2-4). The main motives for MAC has are environmental change and the changing forms of organizations under institutional pressures of greater organizational adaptability and flexibility (e.g. organizational learning) and

functional integration (Senge 1990; Kloot 1997; Townley 1997; Guerreiro *et al.* 2006). Furthermore, there has been more emphasis on the scope rather than scale of economies (Murray and White 1983; Mitchell and Onvural 1996; Koshal and Koshal 1999) to achieve competitive advantage through the integration of digitalization of technology and customer orientation in MA (Dunleavy *et al.* 2006; Mouritsen *et al.* 2009). This has contributed to changing the focus of management from management by objectives to management by results. Accordingly, “new” MAPs will emerge from new ways of doing business and new business enterprises, such as continuous improvement (e.g. using TQM), strategic planning, and business process re-engineering (Hoque 2003; Prajogo and Sohal 2006; Albadvi *et al.* 2007; Wickramasinghe and Alawattage 2007).

Figure (2-4) The Orientation of Management Accounting Change



(Source: Adapted from Wickramasinghe and Alawattage, 2007:14)

Recently, MAC has been debated by many MA researchers, who have asked whether MASs have changed, or should change, or have not changed (Burns and Scapens 2000). There are pointers in the environment in which MA is practiced, signifying continuous change in response to environmental change, advancing information technology and organizational restructuring (Ezzamel *et al.* 1996). Some scholars apparently did not agree that the fundamental nature of MAPs and systems is changeable, and traditional MAPs and systems are still in use, although there have been advances in new systems such as ABC (e.g. Dury *et al.* 1993). However, other scholars emphasize that the use of MAPs within management processes has changed (Bromwich and Bhimani 1989; 1994). Remarkably, the focus of the

research now is on understanding the processes of MAC (Scapens 2006; Scapens and Bromwich 2010). Burns and Scapens (2000) confirm that MAC has become more popular, and more research is required.

A considerable number of studies have supported the notion of the dynamic nature of MA, although the findings are not homogeneous, and are sometimes contradictory (Burns *et al.* 1999; Burns *et al.* 2003; Busco 2006). On the one hand, MAC could be conceived as the introduction of new MASs, such as BSC or ABC. This particular view is largely provided by North American accounting authors (Hopper *et al.* 2001; Kaplan and Norton 1996; Baker and Bettner 1997). On the other hand, MAC can be conceptualized as the process of change in the manner in which traditional and/or new systems are actually being implemented (Hopwood and Miller 1994; Scapens 1994). Hence, MAC occurs with the introduction and implementation of new techniques or with changes in the way managers use MA information generated by traditional systems (Wanderley *et al.* 2011).

Studies of MAC were primarily motivated by the criticisms of Johnson and Kaplan (1987), who argued that MAPs and systems had changed little over recent decades, as result of which MA had lost its relevance. They opened up the discussion and encouraged the use of advanced accounting systems (Zoubi 2011). Accordingly, many scholars, practitioners and accountants have sought to find new solutions to develop MAPs and systems, in order to provide managers with relevant and timely information in response to advancing technology and environmental change (Burns and Vaivio 2001; Langfield-Smith and Smith 2003; Hyvönen 2005; Rom and Rohde 2007). New MAPs and systems have emerged (Bjornenak and Olson 1999), as a result of changes in business environments, new organizational designs, and new information technologies (Powell 1995; Kaplan and Norton 1996; Guilding *et al.* 2000; Cinquini and Tenucci 2007; Lord 2007; Tillmann and Goddard 2008; Cinquini and Tenucci 2010). Thus, MAC has usually been seen as arising from economic imperatives (Doyle and Schools 2007; Thrane 2007).

In this approach, some researchers have examined the relationships between various organizational factors and MAPs (Libby and Waterhouse 1996; Chenhall and Langfield-Smith 1998; Chenhall and Langfield-Smith 1998; Chenhall and Langfield-Smith 1998; Anderson and Young 1999; Baines and Langfield-Smith 2003; Langfield-Smith and Smith 2003; Sulaiman *et al.* 2004; Auzair and Langfield-Smith 2005; Mail *et al.* 2006; Al-Omiri and

Drury 2007; Bhimani and Langfield-Smith 2007; Koc and Ceylan 2007; Wu and Drury 2007; Al-Nimer 2009; Caba-Perez *et al.* 2009; Tatnall 2009; Abdelghaffar *et al.* 2010; Askarany *et al.* 2010). Other researchers have focused on the technical side of change by developing a new typology of MAC (Sulaiman and Mitchell 2005; Chanegrih 2008). The main finding of Sulaiman and Mitchell (2005) supports the evidence from the previous literature that the nature of MA is not static (Hopwood 1987). These studies have shown that MAC was mainly in planning, controlling and decision-making processes.

Scapens (2006) points out that most empirically informed research that appeared in the major international journals had limited influence on MAPs. Although some advanced practices that were developed in the US, such as ABC and BSC, have had little influence on practice, the challenge for researchers is to explore the implications and changing nature of MAPs. As a consequence, MA researchers have increasingly focused on examining both traditional and advanced MAPs in their contexts, while change occurs through the way in which MAPs (both traditional and advanced) have been used in practice. Hence, the study of change is important, despite the fact that traditional systems are still more popular in practice than advanced techniques (Scapens and Burns 2000). However, research should focus on the existing MAPs and systems, rather than studying the development of new systems in their historical context (Ryan *et al.* 2002).

Certainly, MAC has become the most popular focus for research, but is not a uniform phenomenon (Sulaiman and Mitchell 2005). Its nature and form may vary across different contexts and this variation has been neglected by researchers who have tended to study change as outcome (i.e. focusing on the technical side only) rather than explaining change as process, in the manner in which it does so over time, and within specific organizational contexts (Ryan *et al.* 2002). In the same way, a few studies have investigated why and how MAPs within the organization become what they are, or are not, over time, such as MAC as *processes* (Covaleski *et al.* 1993; Burns and Scapens 2000). To study MAC as a process, it is necessary to conceptualize the ways in which new MAPs evolve over time, and the implications thereof (Nelson *et al.* 2005).

MA researchers have intended to explain the processes of MAC within specific organizations by tackling a number of issues, including the processes of change in MA (Innes and Mitchell 1990; Burns *et al.* 1999; Burns and Scapens 2000; Busco *et al.* 2001; Ahmed and Scapens

2003; Burns *et al.* 2003; Ridder *et al.* 2005; Yazdifar and Tsamenyi 2005; Ribeiro and Scapens 2006; Nor-Aziah and Scapens 2007; Cruz *et al.* 2009; Busco and Scapens 2011), resistance to MA change (Scapens and Roberts 1993; Burns *et al.* 2003; Ribeiro and Scapens 2004; Jansen 2011), stability and change (Granlund 2001; Kasim and Aziah 2004; Siti-Nabiha and Scapens 2005; Lukka 2007), and power and change (Wax 1971; Markus 1983; Covalesski and Dirsmith 1986; Fincham 1992; Hardy and Redivo 1994; Buchanan and Badham 1999; Burns 2000; Morgan and Sturdy 2000; Collier 2001; Ribeiro 2003; Ribeiro and Scapens 2004; Yazdifar *et al.* 2006; Oliveira 2010). These studies illustrate socio-technical factors that impact the process of change in MA inside the organization.

However, MAC is not an isolated phenomenon (Yazdifar *et al.* 2008). The literature on MAC argues that intra-organizational factors have a major influence in shaping MAPs (Burns 1996). Some researchers emphasize how different internal factors (such as organizational culture, power and politics) have a significant role in shaping and directing organizational change (e.g. Dawson 1994; Buchanan 1997; Quattrone and Hopper 2001). At the same time, Dawson (2003) and DiMaggio and Powell (1983) argue that the extra-organizational factors also influence organizational change including MAC. Furthermore, other researchers argue that such factors (both internal and external) have an active role to play in the success or failure of change, and these factors impact on the encoding or enacting of MAPs and systems over time (e.g., Burns 2000; Scapens and Burns 2000; Scapens 2006; Yazdifar *et al.* 2006). In other words, MAPs and systems have been affected by both internal (micro) and external (macro) environmental factors (Nor-Aziah and Scapens 2007).

Consequently, the study of MAC can extend the understanding of management accounting. It recognizes that management accounting is a social science rather than a mere set of technical techniques available for practice. The idea of MAC explains how management accounting relates to social systems, through which dynamic relations are manifested. As a result, traditional MAPs and systems tend to be changed by new ones, and new systems become maintained and upgraded when new challenges from the dynamic environment require it. Such a process of change can be reflected by asking how MAPs have emerged, developed, and been changed. This means that both MAPs and interrelated social and organizational contexts cannot be understood through straightforward explanation (Scapens and Burns 2000; Burns and Vaivio 2001; Burns *et al.* 2003; Yazdifar and Tsamenyi 2005; Guerreiro *et al.*

2006; Ribeiro and Scapens 2006; Scapens 2006; Wickramasinghe and Alawattage 2007; Carter 2008; Johansson and Siverbo 2009).

2.6.2. Factors Influencing Management Accounting Change

Since this study aims to examine the impact of institutional factors on MAC, it is necessary to discuss the relevant literature on the factors that could affect change. In this study, these factors can be categorized into two major groups: exogenous and endogenous factors. The exogenous factors consist of societal context (social, economic and political factors), and macro-context factors (ecological factors), whereas endogenous factors (micro-context factors) include organizational culture, structure, Information Technology (IT), power and politics. In doing so, the study draws on the view of the organization as an open system of interaction between environmental factors and organizational dynamics (see Stacey 2007; Senior and Swailes 2010).

2.6.2.1. The Exogenous Factors

Organizations are operating in uncertain environment in regard to markets, industries, future security, demand and supply, employment and financial policy. Thus, the business environment of organizations is becoming ever more uncertain as the pace of change accelerates and the future becomes more unpredictable (Furnham 2000). Environment is “a general concept which embraces the totality of external environmental forces which may influence any aspect of organizational activity” (Brooks *et al.* 2004:4). Hence the environment is a construction of reality (Senior and Swailes 2010). Accordingly, exogenous factors are divided into two levels: Societal context level and Macro-context level (organizational field level) (Dillard *et al.* 2004).

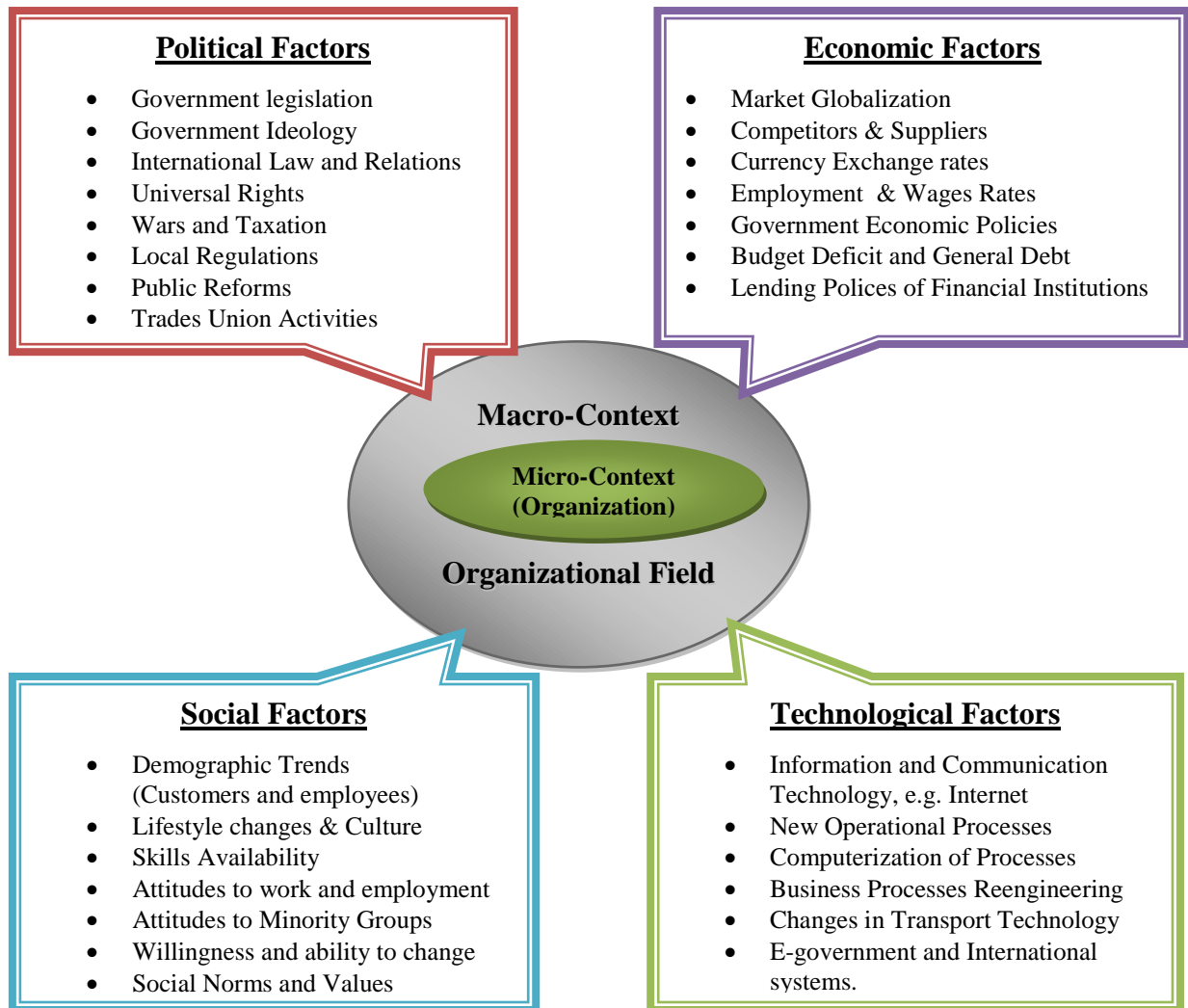
2.6.2.1.1. Societal Context Factors

Societal context factors comprise social, economic, and political contexts in which an organization operates, which react as the ‘overarching societal factors’ in both macro and micro contexts (Hopwood 1983). In the same way, they are “the overarching societal level of political, economic and social systems, within which norms and values are established and disseminated to members of that society” (Dillard *et al.* 2004:511). The influence of the major changes in these operational environments applies tremendous pressures on accounting to change (Granlund 2001; Haldma and Lääts 2002). According to Hopwood and Miller (1994:1), “The manner in which accounting has become embedded in so many areas of social

and economic life has been a continuing concern”. These factors are defined by the Oxford Advanced Learner’s Dictionary (Fourth Edition) as follows:

Economy is defined as, “operation and management of a country's money supply, trade and industry; economic system” (P: 384). Political means the role “of the State; of government; of public affairs in general; political rights; liberties, etc” (P: 958). Social acts are, “concerning the organization of and relations between people and communities” (P: 1213).

Hopwood and Miller (1994) proposed that accounting research go beyond the boundaries of organizations and explore the social, economic and political consequences. Dillard *et al.* (2004) argue that sociology-grounded theory (i.e. NIS) enables the consideration of the social, political and economic aspects that shape the context within which an organization functions. Meanwhile, meaningful change is more likely to be induced and well understood where the societal context can be elucidated and correlated to social action through the various levels of the social order. Kaplan (1984) pointed out that organizations are responding to changes in their environment by introducing new organizational arrangements and new technology to improve their products or services. In the same way, Senior and Swailes (2010) and Brooks *et al.* (2004) believe that technological factors can be considered within the societal factors context in order to become PEST factors – i.e. Political, Economic, Social, and Technological factors. These factors of change are summarized in the following figure (2-5).

Figure (2-5) PEST Factors and Organizational Change

(Modified from Senior and Swailes, 2010:15)

Senior and Swailes (2010) argue that PEST factors are interrelated and operate in a complex way to trigger organizational change. Changes in any one of these factors do not influence organizations directly, but they do interact with other factors. Meanwhile, political decisions shape economic fortunes and economic changes influence social and technological changes, and *vice versa* (see cook 2004). Thus, organizations largely aim to make profits or, in the case of public sector organizations, to work within budgets. Organization's life expectancy continues to rise and increase demand for services while new accounting practices stemming from technological progress may overshoot their budgets, thus putting government under societal pressure to exercise new reform strategies in order to justify their decisions. Burns *et al.*(1999) point out that the changing nature of management accounting refers to various

extra- and intra-organizational factors, which are important to stimulate the change and impact on MAPs and systems.

2.6.2.1.2. Macro-Context Factors

Macro-context factors are the environmental factors that the organization experiences at any given time. Ecological factors are significant in explaining the different accounting practices adopted (Sulaiman 2003). These factors exist outside the organization and encompass organizational field criteria including socio-economic configurations such as industry groups, professional institutes, governmental bodies, geographical collectives and so forth (Dillard *et al.* 2004). This accords with the notion of isomorphism pressures set out by Meyer and Rowan (1977), who see isomorphism within environmental institutions as having crucial effects on organizations. Institutional isomorphism supports the success and survival of organizations. In this regard, an organization that prospers in one country will probably not achieve the same success if it is simply attempted elsewhere without being sensitive to societal differences or at least socio-cultural differences (Harzing and Hofstede 1996). MA is characterized by continuity and change, due to various institutional changes in the environment (Vámosi 2000).

Hofstede (1983) showed that national differences may become one of the most crucial pressures on organizations to change, either in public or privately. These differences are perceived by people as reality. Hence our thinking is partly habituated by national cultural factors. This is an effect of early life experiences in the family and, later, educational experiences in schools and organizations. This way of thinking is known as the “convergence hypothesis”. This convergence of sound management practices would lead to organizations becoming more and more alike. Noteworthy, organizations in the environment include forms of government, markets, educational systems, and professional bodies. All these reflect routines and taken-for-granted ways of thinking, which are rooted in the common culture but may be different for other cultures. That’s why organizations restrict and reinforce the ways of thinking on which they are based (Hofstede 1983; Hofstede and Bond 1988; Hofstede *et al.* 1990; Harzing and Hofstede 1996).

Competition, technology, markets and customers have been considered as environmental factors influencing MAC (Sulaiman 2003). In the same way, change in MA puts much onus on technological innovations that are related to customer orientation and globalization effects,

such as adopting TQM system. These factors are considered to be the most dominant environmental forces (Wickramasinghe and Alawattage 2007). In addition, customer orientation requires non-financial measures to be part of the MA reports. Many of the non-financial measures are involved within BSC in order to minimize customer dissatisfaction and improve financial analysis tools (Vaivio 1999; Hoque and James 2000). Hoque *et al.* (2001) conclude that an increased emphasis on multiple performance measures is associated with businesses facing high competition and making greater use of computer-aided operating processes.

Over the last few decades, remarkable change has emerged in the business environment as a result of various factors: Firstly, an increase in competition caused by worldwide orientation towards lowering of trade barriers and deregulation of industries; secondly, government orientation towards privatization or adoption of private sector systems in public sector organizations; thirdly, advances in information and communication technology; and, finally, organizational boundaries might be unclear because most organizations have merged their paths into chains, networks, clusters and strategic alliances (Clegg and Hardy 1996; Buchanan and Badham 1999). The changes in the business environment can also be caused by macroeconomic circumstances. Organizations operating in a complex economic context are under pressure to improve efficiency. This creates internal demand for MA information with a resulting propensity to change MA systems more frequently (Williams and Seaman 2001; Chanegrih 2008).

2.6.2.2. The Endogenous Factors

Beside exogenous changes, there are also endogenous factors within organizations. The literature argues that the dominant internal factors influence organizational change including the following: information technology (e.g. information systems and computerization of MA); organizational structure (e.g. redefining or change in employees' tasks and roles, and leadership style); organizational culture (e.g. modernizing the strategy of providing goods or services); people (e.g. development of human resource system); management structures (e.g. change in organizational actors, rewards system, and restructuring work); and power & politics factors (Hardy 1996; Chenhall and Langfield-Smith 1998; Burns 2000; Busco *et al.* 2001; Dawson 2003; Ribeiro and Scapens 2004; Albadvi *et al.* 2007; Thornton and Ocasio 2008; Busco and Scapens 2011). Amat *et al.* (1994) assert that there is a close relationship between accounting change and internal factors. These factors have been utilized to analyze

the implementation and change of MASs (Amat *et al.* 1994). The study discusses some of the internal factors that relate to the research objectives as follows:

2.6.2.2.1. Organizational Structure

Contemporary organizations have changed their organizational structures from centralized ones to more flexible, flatter and decentralized structures. They have also changed the emphasis of management style from individual tasks to team-working and from hierarchical power to expert power (Dawson 1994). New structures of organizations have led to new structures of control while traditional organizations have exercised control as a formal structure (Clegg and Hardy 1996). However, teamwork and expert power have led to employees' empowerment as they can exercise control by using peer pressure and internal self-discipline or accountability among organizational actors, thus replacing managerial control with the peer pressures of teamwork (Clegg *et al.* 1996; Ezzamel *et al.* 1999).

MA researchers point out that multiple dynamic aspects of organizational design, including downsizing, outsourcing, de-layering and team-working, can all influence MASs (see Burns *et al.* 1999). Innes and Mitchell (1990) conclude that the processes of organizational change have occurred due to teamwork, organizational restructuring, decentralization of accounting functions, and the use of both non-financial and financial measures to evaluate the performance of employees and organization as a whole. Meanwhile, the decentralization of the accounting tasks has increased the MA role in the management decisions and accounting change (*ibid*). In this light, Otley (1980) states that there is evidence that organizational structure affects the way in which budgetary information is utilized. Hopwood (1972) distinguishes between techniques in which accounting reports show the actual and budgeted cost-for-cost center and the difference between all of them.

2.6.2.2.2. Organizational Culture

Organizations have structures within which the departments and divisions are used to arrange and contain distinct, but sometimes overlapping, activities. It is in these structures that actors do their work; hence a relationship between structure and actions can be observed (Giddens 1984; 1991). According to structuration theorists, structure is not seen as 'patterned regularity' but, as something that emerges from 'the routine behaviour of people, and influences those behaviours' (Gunliffe 2008:37). Structure can thus be viewed in the rules and procedures that have to be followed, such as job descriptions and manual procedures. These

procedures influence what we do and how we do things, i.e. they influence organizational culture and institutions (Senior and Swailes 2010).

Institutional theory has much in common with structuration theory, as it emphasizes the cultural influences on decisions about structure. The actors who decide what organizations should look like are ‘suspended in a web of values, norms, rules, beliefs and taken for granted assumptions that are at least partially of their own making’ (Barley and Tolbert 1997:93). The combination of these features gives the culture of the organization its unique identity and the cultural impacts on decisions about structure which may be sub-optimal (Senior and Swailes 2010). In this regard, Hofstede (1983:88-89) argues that

“management and organizing are culturally dependent [...] because managing and organizing do not consist of making or moving tangible objects, but of manipulating symbols which have meaning to the people who are managed or organized. Because the meaning which we associate with symbols is heavily affected by what we have learned in our family, in our school, in our work environment, and in our society, management and organization are penetrated with culture from the beginning to the end. Practice is usually wiser than theory, and if we see what effective organizations in different cultures have done, we recognize that their leaders did adapt foreign management ideas to local cultural conditions. [...] This adaptation led to entirely new forms of practice [...]. An example is the quality control circle”.

MA researchers have found that employees’ empowerment has led to the emergence of new accounting practices. Also, the power of accounting has increased the collaboration between management accountants and other managers by introducing new solutions and thoughts for organizational problems (Innes and Mitchell 1990; Ezzamel *et al.* 1997). Libby and Waterhouse (1996) found that new performance measures were adopted because of change in measurement techniques of performance at both organizational and individual levels. Organizations operating within competitive environments tend to adopt sound MASs, while there is a positive relationship between the change to decentralization and new technology. There is evidence that the roles of management accountants and other finance managers have changed to become more strategic as a result of changes in the organizational structure and strategy (Chenhall and Langfield-Smith 1998). On the other hand, Scapens (1999) states that some companies have hired non-accountants to perform accounting tasks. This has also led to the rise in hybrid accountants in accounting functions.

2.6.2.2.3. Information Technology

Dawson (2003) states that technology may be an internal and external variable, while change in information technology can help to redesign the organizational process as a whole, including MAPs. Inherently, both internal and external factors overlap and interplay in the

facilitation, direction and success of change. Nanni *et al.* (1992) state that the environment in which MA operates has changed significantly in the last twenty years and obviously this change has occurred in terms of information technology and the complexity of manufacturing operations. MA researchers conclude that organizational structure and technology have significant effects on the way in which an accounting system functions. Particularly, the advance of information technology and competition have impacted on MASs (Otley 1980; Innes and Mitchell 1990; Ezzamel *et al.* 1997; Burns *et al.* 2003; Burns and Baldvinsdottir 2007).

There are different views about the importance of information systems in accounting. On the one hand, Otley (1980) confirms that operational technology has a major effect on accounting information systems. Therefore, complex technology requires simple and informal control mechanisms, and standardized technology needs complex mechanisms (Wickramasinghe and Alawattage 2007). In other words, environment and technology are linked to the structure of complex organizations (Pennings 1975). On the other hand, there is evidence that using information technology has failed to bridge the gap between the designers and users of accounting systems. Changes to information systems frequently fail because the designers concentrate on technical issues and ignore the issues relating to users (Hardy 1995). Hence, decentralized systems need the support of new organizational forms by allowing staff to access the information strategy of the organization and make decisions that may be resisted by senior managers, who fear loss of control (Hardy 1995). Another piece of evidence is that “during the early phases of the crisis the Accounting Information Systems did not appear to possess the requisite qualities for effective pro-active nor responsive crisis management” (Ezzamel and Bourn 1990:155). As Al-Omiri and Drury (2007) found, there is no association between the level of cost system sophistication and cost structure, product diversity and quality of information technology.

In organizations, the decisive dimensions of culture are power distance and uncertainty avoidance. Organizations are devices to distribute power, and they also serve to avoid uncertainty, to make things predictable (Hofstede 1983). Accordingly, these changes and factors have contributed to the appearance of new ideas and practices in organizations. They have placed huge pressure on organizations and their MASs (Spicer 1992). The concern at that time was for more focus on the reform or change of accounting systems through their ability to satisfy the needs of contemporary organizations (Ezzamel *et al.* 1999) At the same

time, new accounting systems have been introduced in organizations (Siti-Nabiha and Scapens 2005). In particular, public sector organizations are oriented towards public reforms and replacing traditional management by new public management (Ter Bogt 2008).

The emergence of new accounting systems has encouraged change in organizations. In turn, this has influenced accounting practices, while accounting has become a social science. Therefore, accounting can be varied and affected by organizational, economic and social factors; at the same time it can be used as a vehicle for organizational transformation (Hopwood 1987; Hopwood 1990; Libby and Waterhouse 1996; Ezzamel *et al.* 1997). Thus, the powerful role of accounting has enabled it to create conceptual visibility of organizational activities and economic facts. It's possible to give accounting the ability to change the organization or influence processes of organizational change, such as the role of accounting in public sector change (Hopwood 1990; Siti-Nabiha and Scapens 2005).

Accordingly, Greenwood and Hinings (1996) argue that such change in the environment led to changes both inside and outside the organization, especially in MASs. Scapens (2006) confirms that if we wish to understand the accounting practices of individual organizations, we have to look within these organizations, with consideration of the external pressures. Whereas NIS institutions are specified, and considered to exert pressures from outside the organisation, OIE enables us to look more closely at internal institutions within the organization; it focuses on the internal pressures and constraints that shape MAPs. Furthermore, there are interactions between the internal and external institutions together in shaping the MAPs of organizations. This can be conceptualized by drawing on contextual analysis.

2.6.3. Contextual Analysis of Management Accounting Change

It is difficult to detach completely internal factors from external triggers of change since decisions that appear on the surface as internal might be responses to some external incident or in some way fit with the organization's strategy which is designed to respond to external pressures (Cinquini and Tenucci 2010; Senior and Swailes 2010). This reflects the concept of the organization as an open system operating in multi-dimensional environments. As a consequence, Winter and Nelson (1982) and Burns and Scapens (2000) confirm that "studying the *processes* of MAC requires a conceptualization of the ways in which new accounting practices evolve over time" (see Burns and Scapens 2000:4). In the same way,

Dawson (1994) reveals that it is necessary to understand processes of change within an organization; and he states also:

“Although there is a growing body of literature in the area of strategic change, a gap remains for the development of a new theoretical framework for understanding major organizational transition at the operational level” (1994:12).

Similarly, Pettigrew argues that,

“There are remarkably few studies that actually allow the change process to reveal itself in any kind of substantially temporal or contextual manner. Where the change is treated as the unit of analysis, the focus is on a single event or a set of discrete episodes somehow separate from the immediate and more distant antecedents that give those events form, meaning, and substance. Such episodic views of change not only treat innovations as if they had a clear beginning and a clear end but also, where they limit themselves to snapshot time-series data, fail to provide data on the mechanisms and processes through which changes are created [as we explained in planned approach]. Studies of transformation are, therefore, often preoccupied with the intricacies of narrow changes rather than the holistic and dynamic analysis of changing” (1990:269).

The proposition that is possible here in response to the above limitations in the MA literature suggests that the form of the research should be contextualist and/or processual in character (Pettigrew 1985a; 1985b). Thus, Pettigrew writes:

“A contextualist analysis of a process such as change draws on phenomena at vertical and horizontal levels of analysis and the interconnections between those levels through time. The vertical level refers to the interdependences between higher or lower levels of analysis upon phenomena to be explained at some further level; for example, the impact of a changing socioeconomic context on features of intraorganizational context and interest-group behaviour. The horizontal level refers to the sequential interconnectedness among phenomena in historical, present, and future time. An approach that offers both multilevel or vertical analysis and processual, or horizontal, analysis is said to be contextualist in character” (1990:269).

The rationale for choosing contextual analysis, including a processual approach, stems from the principle that MAC cannot be and should not be *static*, or a series of *linear incidents* over a specific time period; rather, it is seen as an *on-going process* (Burnes 1996). In support of this argument, Scapens (2006) states that its not easy to understand MAPs without understanding the organizational context. Otley (1980) criticizes research based on armchair theorizing without drawing on pragmatic data. Kaplan (1998) states that there is a need to describe the problems and factors associated with new MAPs, such as BSC & ABC. Ryan *et al.* (2002) show that the knowledge of determinants of change will enable managers to design MASs that conform with the characteristics of their organization. As a result, Van de Ven and Huber (1990:213) state that there has been a growing interest in recent years in studying the following question: “*How does an organizational change emerge, develop, grow or terminate over time?*”.

Dawson (1994; 2003) views MAC as a phase of organizational change described by unpredictable events, confusion and disruption that occur within a certain period of time. Thereby, the interpretation of MAC as a view of action according to a contextual approach is problematic. Individual and organizational behavior cannot be predicted *a priori* by either actors' attentions or environmental conditions (Pfeffer 1982). Thus, Pettigrew (1987) argues that any contextualist analysis of change should have the following characteristics: Firstly, it must be clearly defined although it may be theoretically and empirically connected with a set of levels of analysis; secondly, it also requires a clear description of the process or processes of change, so it must adopt *sound theory* (e.g. institutional theory) that takes into consideration "the history and future of a system and relate[s] them to the present"; thirdly, the processual approach requires a motor, or theory,¹² to drive the process, part of which requires the design of the model of human beings underlying the study; finally, it is crucial for this whole approach of contextualist analysis that the contextual variables in the vertical analysis are correlated to the processes under observation in the horizontal analysis. This means that the use of this approach does not treat context either just as descriptive background or as an assorted list of antecedents that somehow shape the process. But it is necessary to explain the processes of change as an interpretive case-study over a period of time.

Contextual analysis of change has been established to be less prescriptive and more analytical. It can provide a holistic understanding of the factors in and barriers to managing change within a complex environment. Hence it does not use a particular theoretical insight (Dawson 1994; 2003)¹³. In the same view, Pettigrew (1987) suggests that the starting point of contextual analysis of change is the belief that formulating the *content* of any new system certainly entails managing its *context* and *process*. External context refers to the social, political, economic and competitive environment in which the organization operates; internal

¹² Within this study on management accounting change, which adopts Burns & Scapens' framework as a starting point of analysis, the emphasis is placed both on people's capacity and desire to adjust social conditions to meet new ways of working and on the part played by power relationships in the mobilization and continuous development of the processes being examined.

¹³ Dawson used a framework to analyze the processes of organizational change by depending on three timeframes, i.e. the beginning time of a need to change, the time of organizational transition, and the process of the new systems and practices. Also, he classified the change determinants into three main groups: (1) substance of change which represents the introduction and use of new systems or technologies; (2) politics of change which represents the activity of consultation, negotiation, conflict and resistance; and (3) context of change which refers to the past and present of extra- and intra-organizational factors and future expectations and projections. Thus, he used these classifications to be compatible with the three timeframes. At the same time, this approach is based on the work of Pettigrew, who is also not using any specific theoretical framework in investigating the processes of organizational change (see Dawson 1994).

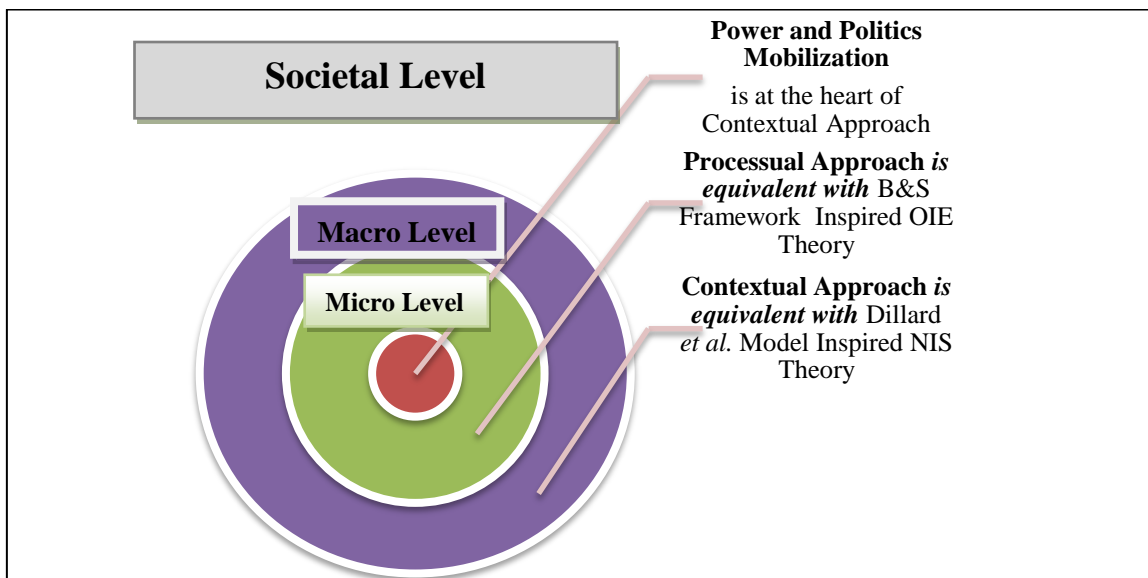
context refers to the organizational structure, culture, power and politics context within an organization through which initiatives for change must be introduced. Content refers to certain areas of change under examination. Thus the organization can be seeking to change information technology, human resources system, customer orientation, MAPs, organizational structure, or indeed organizational culture (*ibid*). The process of change refers to the actions, institutions, routines, reactions, and interactions of the various organizational actors as they seek to change the organizational systems and practices (*ibid*). Consequently, the literature of change is largely discussing the ‘what’ of change briefly under the label of ‘content’, while a great deal of the ‘why’ of change is derived from an analysis of internal and external context, and the ‘how’ of change may be conceptualized from an analysis of processes (*ibid.* and see also Pettigrew 1997).

The processual approach has significant implications for both researchers and practitioners of management accounting. Particularly through understanding the dynamics of processes of change (organization-specific), managers will be better able to impact on the route of change programmes within their own organizations, in addition to anticipating potential difficulties along the way. However, this approach focuses primarily on the factors of change at an intra-organizational level; extra-organizational dynamics of change are ignored. Indeed, the contextual approach has a holistic view to clarify how extra-organizational events are central to catalyzing the processes of MAC which consequently unfold in the organization. Moreover, contextual studies tease out not only the features of change through time, but also the continuity of settled patterns of behavior (Burns 2000).

The study of processes or dynamics of MAC, generally through longitudinal case-studies, has also been suggested by a number of scholars in the literature (Hopwood 1990; Burns 2000; Burns and Scapens 2000; Soin *et al.* 2002). They point out that little is known about the processes of MAC either in terms of the forces which influence MAC and shape different types of accounting systems, or the outcomes of such change. The aim of adopting a contextual approach is to explain beyond simplified, ‘rational’ MA configurations, and to draw the dynamics which guide outcomes but which cannot always be anticipated and which may come unexpectedly (Burnes 1996). Thus, contextualists always believe that culture, power and politics play a key role in the process of organizational change.

The assumption of the contextual approach developed by Pettigrew and Dawson is compatible with the assumptions of both the OIE and NIS that are adopted in this study (see figure 2-6). The contextual approach is a more comprehensive concept than the processual approach; at the same time, the processual approach is the principal component of contextual analysis. While the assumptions of processual analysis are the same as OIE assumptions, both seek to explain processes of MAC within a specific organization at a micro level. However, a processual approach is not enough to consider the effect of external factors and internal constraints on change (e.g. power and politics). To avoid the shortcomings of the processual approach, the study adopts a contextual approach to provide a holistic view of *processes* of MAC at multi-levels. Thereby, the study adopts Burns and Scapens' institutional framework to conceptualize MAC inside the organization at the micro level (Burns and Scapens 2000), and Dillard *et al.*'s (2004) model to explore the processes of change outside the organization at both societal and macro-context levels (Dillard *et al.* 2004). In addition, the study has paid attention to the role of power and politics factors in the processes of change. These are used to enrich and explain MAC as an interpretive case-study within the Jordanian Customs Organization after the introduction of NPM ideas.

Figure (2-6) Contextual Analysis of MAC as Open System



(Source: Author)

Contextual analysis in the above figure shows multi-levels of analysis including vertical analysis and processual or horizontal analysis for understanding MAC. Hence, the processual approach is seen as part of contextual analysis (Van de Ven and Huber 1990). While the

processual approach explains MAC only inside the organization by drawing on OIE theory; the contextual approach explains MAC both inside the organization by drawing on OIE theory (processual approach) and outside the organization by drawing on NIE theory. However, little attention has been paid specifically to understanding and explaining why and how accounting systems emerge in the manner they do, at given times, and within specific organizational contexts. Such an approach would supplement the increasing number of “contextualist” or “processual” studies of broader characteristics of organizational life (Burns 2000; Scapens and Burns 2000; Burns and Baldvinsdottir 2005), especially by studying MAC within interpretive case-studies (Pettigrew 1990; Dawson 1994). Consequently, there has been a significant increase over the last decade in research that considers context as paramount, and that explains MAC as a process rather than a snapshot analysis of change outcomes (Dawson 1994; Burns 2000; Burns and Scapens 2000; Burns and Vaivio 2001). Accordingly, the following section explains the relationship between management accounting change and NPM doctrine as alternative paradigm to public financial management.

2.6.4. Management Accounting Change and NPM Doctrine

Management accounting changes in public financial management over the last decade were central to the rise of the NPM doctrine and its associated ideas of the managing-for-results (MFR) approach and public accountability, of which accounting is a key element. NPM arose as an alternative paradigm to bureaucratic (traditional) public management (see Hood 1995). NPM is often interpreted as a response to budget cuts, fiscal stress, government overload and social dissatisfaction, with relatively poor macroeconomic indicators including high public debt, budget deficit, inflation and unemployment. NPM reforms were taken up and generated by OECD¹⁴ countries in the 1980s (*ibid.*). The NPM, called “a new paradigm” by many researchers, seems to have dominated thinking about public sector and fiscal reforms, including management accounting change, by practitioners and academics alike (Osborne and Gaebler 1992; Hood 1995; Hughes 1998). As Hughes (1998:1) states, “traditional public administration has been discredited theoretically and practically, and the adoption of new forms of public management [accounting] means the emergence of a new paradigm in the public sector”. Thus, NPM doctrine appeared to be a general response to widespread pressures including improving public management and services, remedying fiscal stresses, minimizing budgets, and the imperatives of globalization (Aucoin 1990; Polidano and Hulme 1999).

¹⁴ OECD is the Organization for Economic Cooperation and Development

There is a general consensus that key components of NPM doctrine include the MFR approach, management accounting change, budgeting for results, deregulation of line management, strategic planning, performance-based accountability and conversion of civil service departments (see Aucoin 1990; Hood 1991). Some authors also insert privatization and downsizing as components of the package (Ingraham 1996; Minogue 1998; Polidano and Hulme 1999). In the same way, the government of Jordan has made significant changes in public financial management by drawing on the MFR approach as a main notion in NPM doctrine in terms of planning, budgeting, controlling, monitoring and accountability. The budgeting systems, as a key part of public management accounting, were implemented along with the MFR approach by the government (PEFA 2011). The implementation of NPM initiatives over the last decade had led to significant changes within public organizations in the governmental field in terms of management accounting and organizational changes. These changes have taken place in different aspects including organizational structure, information technology, financial and management accounting and other aspects of financial management, human resources management, customer orientation, total quality management, performance indicators and strategy.

The changing approach to public sector budgeting is part of a more general move to improve public sector performance management, referred to by the OECD as ‘performance management’: “In general one could argue that, under performance management, input-oriented budgets are turned into performance budgets [i.e. ROB], cash-based accounting systems are changed into accrual-based cost accounting systems [...] or performance reporting systems, and compliance and financial audits are complemented by performance audits and evaluations” (OECD 1997:21). The OECD describes a subset of new approaches to the delivery of public services which is often described as the ‘MFR approach’. The shift from the old public administration to NPM has fundamental implications for results-based budgeting. NPM systems permit greater flexibility of inputs and processes in return for greater emphasis on outputs and performance (OECD 1997; Rose 2003). In this regard, performance-based systems are intended to complement accounting systems rather than replace them (Rose 2003).

Along with the governmental context, information and communication technology (e.g. internet or E-business) has become a significant medium for public organizations that need to interact with a wide range of stakeholders. They have the potential to market products and

services, communicate information to a global community, and provide an electronic web for communications and the processing of business transactions (Fink and Laupase 2000). Thus, E-business as well as E-government requires a change in major business processes and management accounting systems in order to provide extensive services (Burn and Robins 2003). A totally new environment is emerging where organizations must work together to establish online networks of systems, stakeholders and value-added processes (Ticoll *et al.* 1998). Governments, albeit with a few exceptions, have appeared late on the scene. Nevertheless, the drive is currently on for radical government change, and the reinvention of the public sector has been accelerated by the change towards online financial services and NPM ideas (Sprecher 2000; Burn and Robins 2003).

However, NPM doctrine can be considered a functionalist approach, in that one of the most significant intentions of the changes is to suggest increasing economic efficiency and effectiveness in public organizations (Ter Bogt 2008). A functionalist approach to organizations assumes that organizations, and the individuals within them, rationally select the intents to achieve their objectives. Specifically, “a functionalist and rational approach assumes that, with the intention of ensuring an organization’s continuity, its choices and decisions should be based on considerations such as improvements in economic efficiency and effectiveness (Covaleski *et al.* 1996). However, many authors have proposed that other factors, apart from economic ones, may play an influential role in the implementation of management accounting changes in both private and public organizations (Meyer and Rowan 1977; Greenwood and Hinings 1996; Scapens 2006; Ter Bogt 2008).

However, to understand management accounting changes in public organizations and their influences, it may be beneficial to attempt to study them with an open mind, not overly restricted by a narrow theoretical point of departure (Hopwood and Miller 1994). As a result, this study mainly explains management accounting change (MAC) from institutional perspectives, and hence creates the possibility of focusing on the different potential reasons and pressures for introducing the new system, on the change processes, and on the influences of the changes. An institutional framework in conjunction with a contextual framework combine both external and internal pressures, such as political, economic, historical, social and cultural dimensions, in the analysis of organizations and change processes (Greenwood and Hinings 1996; Ter Bogt 2008). In this regard, Scapens (1994:303) argues that a lot of emphasis on an ‘idealized’ picture might narrow the view of aspects of organizations where

relevant changes have taken place. He assumes that, to gain a holistic picture of the effects that specific changes have had in practice, it might be very important to obtain knowledge of the working methods that have changed.

However, comparatively little consideration has been given specifically to understanding and explaining why and how management accounting emerges in the manner it does, over time, and within specific organizational context (Ryan *et al.* 2002). Few studies have investigated why and how MAPs within the organization, especially in the public sector, become what they are, or are not, over time, such as MAC as *process* (Covaleski *et al.* 1993; Burns and Scapens 2000). Meanwhile, those who studying MAC as a process need to conceptualize the ways in which new MAPs change over time, and the implications thereof (Nelson *et al.* 2005). One such commendable development has been institutional theory built on OIE and evolutionary economics (Scapens 1984; 1985; 1990; 1994). This development has emerged in response to recognition of an apparent gap between management accounting theory and practice (Scapens 1984). Hence, this gap has emerged largely as a result of the problems underlying assumptions of neoclassical economic theories of management accounting models (Wickramasinghe and Alawattage 2007). According to these problems, institutional theory has been launched to explain MAPs, particularly changes occurring in existing practices (Scapens 2006).

Management accounting studies of the public sector have explained the processes of NPM reforms by adopting an institutional perspective to reveal the utilization of accounting practices as legitimating imperatives (see Seal 1999; Lapsley and Pallot 2000; Modell 2001; Jackson and Lapsley 2003; Seal 2003; Clarke and Lapsley 2004; Lapsley and Wright 2004; Caccia and Steccolini 2006; Modell and Grönlund 2007; Modell 2009). An institutional ‘contextual’ framework could serve as a basis for understanding and analyzing processes of MAC after the introduction of NPM ideas. To further understand change processes in organizations, including the causes of their introduction and their effects, it could be particularly interesting to provide a broad analysis of MAC in the public sector that is based on multi-level institutional theory (Ter Bogt 2008). It seems that, thus far, little pragmatic research has been conducted with respect to the possible contributions of institutionalism to an understanding of gradual MAC in the public sector at multi-stages. However, institutional theory might provide a basis to interpret and analyze the reasons for introducing NPM reforms - such as accounting changes and the change processes in public sector organizations,

and their effects (Nor-Aziah and Scapens 2007; Gomes *et al.* 2008; Ter Bogt 2008). Accordingly, the following sections discuss the alternative perspective for studying MAC; i.e. one that is, consistent with the contextual approach and the relevance of institutional theory.

2.7. Alternative Perspectives of Management Accounting Change

The previous sections have discussed management accounting's definition, its nature and its functions from one side, and the dynamics and factors of organizational change with the emphasis on MAC from another side. Accordingly, it is appropriate here to review alternative theories on MAC. Various theories have been used to examine the nature of MAPs and systems. Every of these approaches have an important role in the emergence of a number of issues and interesting disciplinary insights (Baxter and Chua 2003). There is evidence that MA has changed its emphasis from a positivistic approach into a non-positivistic or interpretive approach (Ashton *et al.* 1991; Ryan *et al.* 2002). MA literature has classified theoretical perspectives on MA into two main groups: the rational perspective on MAC; and the interpretive and critical perspective on MAC (Ashton *et al.* 1991; Ryan *et al.* 2002; Cooper and Hopper 2006; Wickramasinghe and Alawattage 2007).

2.7.1. Rational Perspective on Management Accounting Change

The rational perspective is also called the technical or managerial perspective. It represents the conventional wisdom of MA, and the mainstream MA researchers. It views MA as a set of calculative practices and a subsystem (a managerial function) of the overall organizational information system (Wickramasinghe and Alawattage 2007). According to MA literature, this perspective builds on the assumptions from different theories including neoclassical economic theory, new institutional economics, agency theory and contingency theory.

2.7.1.1. Neoclassical Economic Theory

Neoclassical theory appeared in the second half of the nineteenth century, taking economics out of the political arena (Scapens 1990). It came as result of increasing attacks from both inside and outside the economics profession (*ibid*). Accordingly, neoclassical theory has changed its emphasis from value into utility and from production into demand, in response to political implications of classical economics (Tinker *et al.* 1982; Samuels 1995). It has been referred to as the 'marginal revolution', which aims to interpret prices in terms of marginal estimations and opportunity costs (Kristol 1981; Tinker 1984). Methodological aspects of this theory have moved into mathematical techniques to refine economic models, but its core of

microeconomics has stayed intact (Scapens 1990; Prasad 2003). Noteworthy, this theory has two faces: normative and positive. While positive models intend to describe and predict the general economic behavior of agents and systems; normative models attempt to prescribe the optimal behavior for them (Baiman 1990; Wickramasinghe and Alawattage 2007).

Accordingly, neoclassical theory is theorizing in terms of equilibrium and maximizing (rationality), and its assumptions belong to a closed economic universe. Hence, it examines the economic behavior of organizations at macro level. According to this theory, the correct way to do business is to stick to the maximization model, complicating the environment/situation. Thus, it reflects exactly the absence of internal structure and complexity, and the consequent explanation of all behavior in terms of extrinsic changes, such as socio-political factors (Foss 1994). Hopper (1988) states that it is impossible to divorce economics from political and social processes. Also, it cannot be viewed as a politically neutral representation of economic processes (Scapens 1990). Neoclassical theory does not explain ‘the process’ of individual behavior (*ibid*); hence it has difficulty in analyzing processes of change (Cyert and James 1963; Machlup 1967; Cohen and Cyert 1975; Williamson 1998; Scapens and Burns 2000)¹⁵.

The critiques of marginalism have also arisen from what has come to be known as the Cambridge Controversies (Harcourt 1972; Hunt and Schwartz 1972; Steedman and Sweezy 1981). These debates in the literature provide an official recognition that political and social factors¹⁶ cannot be excluded from price theory. The ambiguities recognized by Cooper and Keim (1983) cannot be resolved by giving a cosmetic, socio-political “facelift” to the orthodox theory of economic regulation. A further shortcoming of neoclassical economic analysis is its dependence on interest group theory and its inadequate treatment of social conflict (Tinker 1984). Furthermore, considerations strongly akin to Von Hayek’s (1937) underlie the worries of some neoclassical economists that neoclassical theory has not solved the stability problem (Foss 1994). According to MA literature, neoclassical theory provides

¹⁵ They also discuss that neoclassical theory was developed by economists to predict general patterns of economic behavior. It was never intended to be an explanation of the processes of individual behavior (Cyert and James 1963; Machlup 1967; Cohen and Cyert 1975; Williamson 1998). Neoclassical economics has been very successful in predicting economic behavior at the market level, but has been far less successful in predicting the economic behavior of individual decision-makers (Cohen & Cyert 1975: 51).

¹⁶The “Political Realm” incorporates the activities of the state (education, welfare, taxation, political representation, law enforcement, judicial processes, military activities, and so forth) including those that regulate financial disclosure (Nelson & Winter 1982; Foss 1994).

frameworks for seeing MA as a set of calculative practices which help decision-makers to maximize their utility (Wickramasinghe and Alawattage 2007). Thus, it may be useful for similar purposes in MA, such as in predicting general trends in accounting. However, it will be less helpful in explaining the process of change that leads to individual accounting practices (Scapens and Arnold 1986; Hopwood 1987; Scapens 1990).

2.7.1.2. New Institutional Economics (NIE)

NIE is an extension of normative neoclassical economics (Burns 1996; Williamson 1998). According to NIE, individuals have constant tastes and preferences and seek to maximize their self-interest (Burns 1996). NIE extends the traditional economic (neoclassical) approach and applies the assumptions of economic rationality and markets to the governance of organizations (Scapens 2006). NIE has laid the foundations for what has since become more widely known as transaction cost economics (TCE), which is also grounded in neoclassical economic theory (Williamson 1985; 1998; Coase 2000). NIE utilizes economic logic to explain diversity in forms of institutional arrangements. In the same way, TCE, as a product of NIE, seeks to explain the differences in markets and hierarchies (Williamson 1985; 1989). It adopts a rational economic approach, starting from assumptions of bounded rationality and opportunism, to explain why transactions are organized in particular ways and why organizations have hierarchical structures exchange (Casadesus-Masanell and Spulber 2000; Coase 2000; Scapens 2006).

TCE regards 'transactions' within and between organizations as a basic unit of analysis in economic theory. According to TCE, organizations exist in order to coordinate transactions between members of society when the transaction costs¹⁷ of doing so fall short of the cost of allocation via free markets (Burns 1996). Whereas neoclassical economics describes the organization as a production function, (which is a technological construction), TCE describes the organization as a governance structure, (which is an organizational construction) (Williamson 1998). Neoclassical theory debate has changed to emphasize markets and hierarchies (organizations) as alternative institutional arrangements of coordinating production and exchange (Casadesus-Masanell and Spulber 2000; Coase 2000). The TCE logic of choosing a governance structure is that a specific institutional arrangement is chosen to coordinate and govern a specific type of transaction because that combination offers the most economic means of doing so (Williamson 2000).

¹⁷ Transaction costs may be considered, such as as the costs of negotiation, execution, and enforcement.

New institutionalists state that they have changed some of the neoclassical assumptions about economic stability (rationality) and emphasized the significance of transaction cost minimization (see Dugger 1995). Dugger (1995:453) asserts that the new institutionalists develop “new models but not new theory”. Thus, TCE is concerned with the structures used to govern economic transactions (Williamson 1981; Scapens 2006). In this way, TCE concerns ‘comparative contractual arrangements’ (markets, hierarchies, and hybrid) (Williamson 1988) and the determination of transaction cost economizing (minimizing) within such contractual arrangements (Williamson 1981). Economizing is achieved by assigning transactions to governance structures in a discriminating way (*ibid*). TCE strategy focuses on efficiency, which is achieved by making the transactions, rather than commodities, to assess governance structures, of which organizations and markets are the leading alternatives, in terms of their capacities to economize on transaction costs (*ibid*).

Whether a given institutional arrangement is more economic than another to coordinate a specific type of transaction is described in terms of ‘transaction costs’ related to each institutional arrangement. Thus, for example, it is argued that an organization has a role to play in the economic system if transactions can be organized within the organization at less cost than if the same transactions were carried out through the market (Williamson 1988). Hence, TCE assumes that human agents, although constrained by bounded rationality, are ‘given opportunism, which is a deep condition of self-interest seeking that contemplates guile’ (*ibid*: 68). That economic agents are simultaneously subject to bounded rationality and are given to opportunism does not by itself, however, vitiate autonomous trading (*ibid*.).

TCE has been adopted in various MA areas, such as MA history (Johnson and Kaplan 1987)¹⁸, inter-organizational relationships (Dekker 2004; Mouritsen and Thrane 2006), and management control systems (Van der Meer-Kooistra and Vosselman 2000; Speklé 2001; Dekker 2004). However, Dekker (2004) argues that TCE prediction as a form of governance structure, which is a function of transaction characteristics, is insufficient to explain management and control of inter-organizational relationships adequately, for two reasons. The first reason is that its singular focus on the notion of transaction cost economization as the sole determinant of governance lacks the suitable recognition of variety in the forms and goals of inter-organizational relationships (e.g. power and politics mobilization). The second one is

¹⁸ Johnson and Kaplan (1987) explain why and how management accounting came to be an inevitable technical development in the history of business. MA was developed in response to managerial actions by looking beyond efficiency (see Wickramasinghe and Alawattage 2007).

that the *static* nature of TCE has resulted in a neglect of the organizational and social mechanisms associated with governance of inter-organizational relationships (see also, Wickramasinghe and Alawattage 2007).

In the same way, TCE has been criticized because “it deals with polar forms, markets and hierarchies to the neglect of intermediate or hybrid forms¹⁹” (Williamson 1991:269). TCE reasoning probably has greater relevance for studying commercial rather than non-commercial enterprise, since natural selection forces operate with greater assurance in the former (Williamson 1981). Governance structures that have better transaction cost economizing properties will eventually displace those that have worse, *ceteris paribus*. Hence “the governance implications of transaction cost analysis will be incompletely realized in non-commercial enterprises in which transaction cost economizing entails the sacrifice of other valued objectives” (of which power will often be one) (Williamson 1981:574). Accordingly, NIE draws attention to the economic factors only, which help to shape the structure of organizations and their MAPs. Thus, it could be helpful for understanding certain aspects of the mishmash of inter-related influences on the change. However, economic factors are only part of these inter-related influences of MAC (e.g. social and political factors); there is a need to look beyond economic factors in order to gain a fuller understanding of change dynamics (Scapens 2006). Consequently, it is irrelevant to study MAC as a process.

2.7.1.3. Agency Theory

Agency theory derived from neoclassical economics is also called the principal-agent theory (Baiman 1990). It was intended to tackle the shortcoming in TCE by resolving agency and control problems. The agency problem occurs as result of agency relationship, which exists when one or more individuals (i.e. principals) hire others (i.e. agents) in order to delegate responsibilities to them (*ibid.*). The agency relationship is governed by a written or unwritten contract between principal (an organization) and agents (employees) to execute specific contractual arrangements, such as specific objectives, duties, responsibilities, etc. (Fama and Jensen 1983). Unlike TCE, where the focus is on the transactions, agency theory regards ‘agency relationships’ as basic unit of analysis. In addition, agency theory has a tendency to focus on the relationships between individuals within an organization, whereas the TCE theory has a tendency to focus on the relationships between organizations (Baiman 1990).

¹⁹ Hybrid form is a homogeneous category integrating distinct characteristics of markets and hierarchies to form a middle ground (Williamson 1991).

An organization, as a nexus of contracts between principal and agents, requires cooperative behavior from agents to arrive at an optimal position – shareholders' wealth maximization (Baiman 1990). Accordingly, the agency problem occurs when there is a conflict of interests between them, or a deviation from cooperative behavior. As a result, when cooperative behavior is not consistent with self-interested behavior, the group suffers from a loss of efficiency (*ibid.*). Thus, control is needed to make agents' behavior comply with organizational goals, such as a control system defining the nature of agency relationships within the organization, e.g. budgeting, standard costing, and responsibility accounting (Baiman 1990; Subramaniam 2006).

Hence agency theory can be considered a rich theoretical principle for understanding organizational processes and design from a principal-agent viewpoint (Subramaniam 2006). Agency theory incorporates both faces of neoclassical economics to play roles in a normative sense, to derive optimal contractual relationships between principal and agents to maximize the principal's objective, and in positive sense, to assess the optimality of existing control structures and relations (Baiman 1990; Subramaniam 2006). Fama and Jensen (1983) argue that control of agency problems in the decision process is essential when the decision agents (managers) who initiate and execute significant decisions are not the major principals (residual claimants) and hence do not bear a major share of the wealth effects of their decisions. They see that an effective control system which includes four processes through the control of decisions (ratification and monitoring) is to some extent separable from the management of decisions (initiation and implementation). Without that, such decision agents are more likely to take actions that deviate from the interests of principals (*ibid.*).

Agency theory has been utilized in MA research to provide two complementary interpretations: Firstly, as a normative theory to determine the economic efficiency of MAPs in order to mitigate the agency problem and to achieve optimality in production and resource allocation (e.g. budgeting, performance measurement systems, and monitoring system) (Dent and Ezzamel 1987; Sharma 1997); and, secondly, as a positive theory to examine the optimality and validity of empirically observed contractual arrangements (e.g. incentives, compensation, responsibility accounting, information systems, etc.) (Walker 1989; Arya *et al.* 1997; Wickramasinghe and Alawattage 2007). Therefore, it has been used to address two major questions: how do features of information, accounting and compensation systems

influence (mitigate or worsen) agency problems (Covaleski *et al.* 1996); and how does the existence of the agency problems influence the design and structure of information, accounting and compensation systems? (Lambert 2001:4)

However, Arya *et al.* (1997) argue that double views of agency theory are measured in isolation, without considering the external influences on change. It is noteworthy that the agency theory approach needs to move away from its long-standing preoccupation with efficient risk-bearing in favor of interim contractual arrangements (Williamson 1998). It has been argued that an agency theory of corporate governance is ‘under-socialized’, with a blinkered view of the institutional environment influencing corporate governance (Aguilera and Jackson 2003; Aguilera *et al.* 2006). The contractual view of the world is portrayed by agency theory as an unrealistic description of business relationships, where the majority of businesses are not engaging in single games or discrete contracting. Thus, in order for agency theory to be meaningful, it must be theorized in ways that consider the critical importance of the power relations that mediate agency relations (Armstrong 1991; Ogden 1993). Consequently, Lambert (2006:249) states:

“Like most economic models, agency theory models are not intended to be literal descriptions of the world. Models represent abstractions that are designed to illuminate important structure that is hard to see in the “mess of so many factors”. Moreover, agency theory models are notoriously difficult to solve. Adding complexity along almost any dimension naturally makes it even less likely that the researcher will be able to solve the model. It is therefore critical that the researcher exercise great care in selecting the features of the model; particularly, in choosing what dimensions of the model are going to be allowed to be endogenous versus exogenous”.

2.7.1.4. Contingency Theory

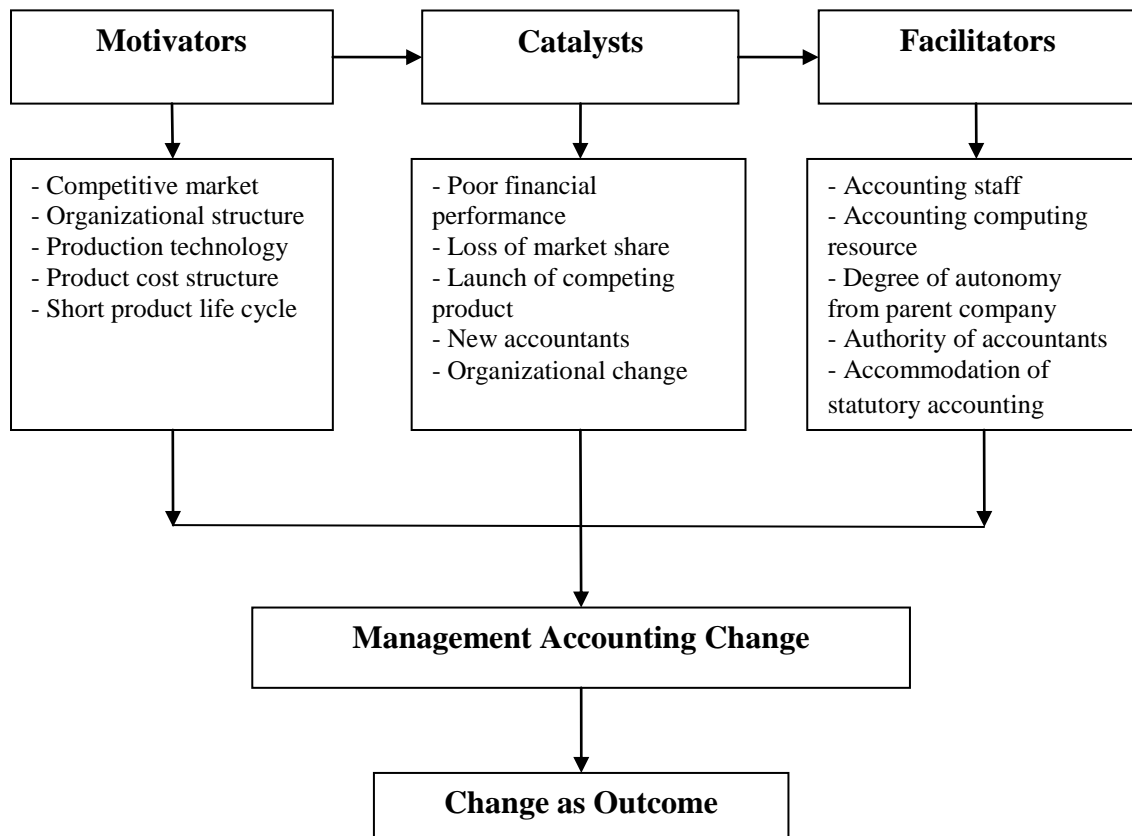
Unlike agency theory, where there is an optimal (general) model of MA relationships, contingency theory assumes there is no generally appropriate accounting system equally applicable to all organizations in all circumstances (Gordon and Miller 1976; Otley 1980; 1994). Hence, contingency²⁰ theory extends agency theory and draws on organizational and behavioral theories (Otley 1980; 1984). It proposes a way of designing and studying accounting systems under different circumstances (Otley 1978). It views the world of MA in terms of ontology and epistemology, in contrast to agency theory, which views the world as unrealistic and optimal (Ashton *et al.* 1991; Wickramasinghe and Alawattage 2007). Contingency theory has been used in MA in two ways.

²⁰ Contingency is an unavoidable business circumstance rather than something arising from an emergency (Clegg *et al.* 2005).

On the one hand, MA researchers in this perspective believe that MASs are shaped by two major factors: contingent factors, for example structure, decentralization, information technology, strategy, power, ownership and size (Khandwalla 1974; 1977; Miles *et al.* 1978; Otley 1980; Ezzamel and Hart 1987; Chenhall and Langfield-Smith 1998; Chenhall 2003; Abdel-Kader and Luther 2008; Cadez and Guilding 2008); and environmental factors, such as technology, competition and uncertainty (Khandwalla 1972a; Khandwalla 1972b; 1973; Hofstede 1983; Gordon and Narayanan 1984; Chenhall and Morris 1986). Some researchers have examined the impact of both types of factors (i.e. contingent factors) on MA (Gordon and Miller 1976; Waterhouse and Tiessen 1978; Drury and Tayles 1995; Reid and Smith 2000; Haldma and Lääts 2002; Hutaibat 2005; Al-Omiri and Drury 2007). The aim of these studies was to generate possible generalization between such relationships and to describe how MA may be used in different situations (Hopper and Powell 1985; Ryan and Hobson 1985; Ryan *et al.* 2002; Clegg *et al.* 2005).

On the other hand, MA researchers have used contingency theory as the framework to understand the contingent factors that explain why and how accounting has changed in an organization and how these factors influence accounting change in different manners (Innes and Mitchell 1990; Cobb *et al.* 1995; Otley 1999; Morakul and Wu 2001; Otley 2003; Waweru *et al.* 2004; Baird *et al.* 2007; Jansen 2011). Others have developed a new typology based on contingency theory, to assist in exploring and predicting MAC within both the public and private sectors (Luder 1992; Cobb *et al.* 1995; Libby and Waterhouse 1996; Monsen and Nasi 1998; Godfrey *et al.* 2001; Kasurinen 2002; Christensen and Yoshimi 2003; Sulaiman 2003; Sulaiman and Mitchell 2005; Chanegrih 2008; Upping and Oliver 2011). Innes and Mitchell (1990) identified three major contingent factors influencing MAC, namely motivators, catalysts and facilitators (see figure 2.7).

Figure (2-7) The Process of Management Accounting Change



(Source: Innes and Mitchell, 1990:14)

However, the model of Innes & Mitchell (1990), and then developed by Cobb *et al.* (1995) and Kasurinen (2002), is strongly focused only on factors that drive change, and it doesn't explain how the process of MAC occurs within an organization (Upping and Oliver 2011). They have studied MAC as an outcome, without trying to open the black box of change. The position of contingency theory can be viewed as current techniques or temporary solutions, which do not match the changing environmental demands (Wickramasinghe and Alawattage 2007). Hence cross-sectional studies based on survey and statistical methods have not produced a deeper understanding of how organizations and their accounting systems react to contingencies (Otley 1980; Hopper and Powell 1985; Chenhall 2003). Hypotheses that come from previous studies or from other normative judgments cannot discover anything (Gordon and Miller 1976). Thus, contingency theorists in accounting are looking for linear relationships, which are not helpful for explaining change in practice (Hopwood and Miller 1994). This limits the opportunity to explore emergent dynamics concerning the processes of MASs and their underlying influential factors (Wickramasinghe and Alawattage 2007).

Accordingly, the findings of contingency theory are still fragmentary and contradictory because the researchers cannot successfully link their results to previous studies (Chapman 1997; Chenhall 2003). Thus, the results cannot be generalized to such situations; the researchers seem to argue that they are generalizable but they have not given proper consideration to other factors, such as, political and socio-economic factors (Hopper and Powell 1985).

2.7.2. Interpretive and Critical Perspective on Management Accounting Change

The fundamental assumptions of the previous rational theories and their application in MA research look beyond rationality and optimalization. Only contingency theory might be seen as a deviation from the economic rationality perspective, although it still focuses on rationality through the investigation and generalization of the relationships between MASs and contingent factors. These types of studies can only provide prescriptions for managerial practice, assuming that hypothesis-testing and cross-sectional analysis as well as normative models are functionally helpful in daily practice (Hopper and Powell 1985; Ashton *et al.* 1991; Wickramasinghe and Alawattage 2007).

MA in line with this perspective, tends to generate both intended and unintended organizational outcomes, such as resistance and conflict (Birkett and Poullaos 2001). MAPs is a result of four interrelated factors: social institutions, organizational context, technologies and academic institutions (*ibid*). In the same way, Scapens (1984;1994) points out that MA has been seen as social and institutional practice. Hence, MAPs must be studied and interpreted through what has actually occurred (*ibid*). Thus, MAC occurs through natural organizational dynamics equipped with subjective meanings and competing actions (Scapens 1990; Ryan *et al.* 2002; Ahrens and Chapman 2006; Wickramasinghe and Alawattage 2007; Ahrens 2008). Accordingly, interpretive theorists have developed their perspective by drawing on social theories in order to enrich explanations of MAC by adopting a case-study approach (*ibid*).

Hopwood (1976) states that accounting has been seen as a static and purely technical phenomenon; in fact, the processes, techniques and ways in which accounting information is used have never been static. The opportunity should be taken to move beyond static forms of analysis to study the complexities and dynamics of accounting change (Hopwood 1976). As a consequence, alternative perspectives have presented different theories from which accounting can be seen as a dynamic and social institution, subject to changes under historical

conditions, and socially constructed (Hopwood 1976; Ashton *et al.* 1991; Wickramasinghe and Alawattage 2007). Ryan *et al.* (2002) argue that research-based social theories have been classified into two types: interpretive and critical perspectives. The interpretive perspective tends to understand MA as a social practice within a social context, while the critical approach tends to examine the interplay between the organizational systems and their broader socio-economic and historical contexts by consulting other social sciences, such as sociology and political economy. Both perspectives have shared common criticisms of conventional research (rational perspective) in MA (Ryan *et al.* 2002; Scapens 2006; Wickramasinghe and Alawattage 2007).

Unlike rational perspectives, the interpretive and critical (i.e. pragmatic) perspective is a research approach which is used to explain MAC (Wickramasinghe and Alawattage 2007). Unlike rational researchers, interpretive and critical theorists believe that ‘rationality²¹’ can be articulated through subjective interpretations of organizational members (managers and employees) (*ibid.*). They have conducted case-studies of individual organizations to report how MASs produce different consequences (*ibid.*). Therefore, they believe that MAPs are outcomes of shared meanings of organizational members, rather than artificial (technical) views, as was seen in the rational perspective (*ibid.*). A comparison of all three perspectives (*as set out in table 2.1*) indicates that MA research has changed from technical-managerial (rational) perspective to a sociological (pragmatic) perspective.

²¹ Interpretive theorists see rationality as an interpretive project instead of a universal reality that can be seen in each organization.

Table (2-1) The Comparison between the Three Perspectives on MAC

Essential Aspects	Rational Perspective	Critical Perspective	Interpretive Perspective
The view	Technical-managerial view	<i>Sociological view</i>	<i>Sociological view</i>
Orientation	Prescriptive	<i>Interpretive</i>	<i>Interpretive</i>
Focus	Organizational/technical	Social (environmental)	Human and social meanings (both)
Aims	To develop MAPs and systems to ensure efficient and effective management of organizations	To highlight social problems and issues in the use of MAPs and system	To describe, interpret and theorize what is being practiced (both MAPs and systems)
Level of Analysis	Individuals, subunits and systems	Social interaction and institutionalized subordination of labor	Human behavior and consciousness/ interpretation
Image of Organizational Reality	Rational and cooperative behavior	A set of individuals worried about others actions and a site of class (and power) struggle,, domination, disciples and colonization	A shared meanings and institutions system
Theoretical Foundation	Neo-classical economics, agency theory, contingency theory, and the like	<i>Sociological theories</i> (including actor-network, structuration, and institutional theory, etc.)	<i>Sociological theories</i> (e.g., Marxism, neo-Marxism, political economy, and the like)
State of Management Accounting	A technical and neutral information service for decision-making	A process whereby certain powerful actors negotiate shared meanings and a set of control devices shaped by dominant mode of production	Interpretive process subject to changes under actions and institutions by organizational actors
Contribution to Management Accounting	A mirror-like objective depiction of reality	A partial and subjectively created of accounting information	Subjective and/or theoretical explanations
Management Accounting Change	As <i>outcome</i> of technical and organizational progress	As <i>process</i> of interaction between human actions and institutions No historical analysis as depicted by naturalism.	

(Adapted from Hopper *et al.*, 1987, and Wickramasinghe and Alawattage, 2007)

Accordingly, the origin of sociological theories is the belief that social practices, such as MAPs, are not objective phenomena but are socially constructed and changed by social and organizational actors. To study social practices in this way, it is necessary to observe the relationships between social action and different elements of social structure without looking for universal law and generalization as we have seen in previous theories. However, social theory is used in MA research to examine the homogeneity between organizations in order to get legitimacy or survival (Ryan *et al.* 2002). In this regard, MA researchers have used different theoretical approaches from social sciences to deepen their understanding of the

nature of MAPs. These theories are actor network theory, structuration theory, and institutional theory (Macintosh and Scapens 1991; Scapens 2006).

2.7.2.1. Actor-Network Theory (ANT)

ANT is an avenue for interpretive case approaches to support the understanding of MAC; it was developed by Latour and others (Latour and Woolgar 1979; Callon and Law 1982; Callon 1986; Callon *et al.* 1986; Latour 1986; 1987; 1991; 1993; 1999; 1999; 2005). The origin of this framework refers to the need for new social theory that integrates science and technology rather than focusing only on social factors (Latour 2004b). ANT aims to understand accounting's innovative diffusion in the context of networks of human and non-human actors (or social and technical elements); it assumes that both are significant in the networks as actors and that they complement each other without discrimination between them (Latour and Biezunski 1987; Latour 2005). The main approach of the ANT model is the translation process²², which is defined as the process through which divergent actors and their interests are translated into facts in order to reach a common interest or the main actor (innovation or new system) (Callon 1986; Latour 1987).

Callon (1986) affirms that the translation process comprises four overlapping and interacting phases, aiming to measure the implementation of accounting systems innovation: problematization, interessement, enrolment, and mobilization. Quattrone and Hopper (2005:737) recognize that “accounting representations [...] only emerge after a process of translation involving mediations between various interests and existing technologies that re-define their attributes and why they were introduced”. ANT has particular benefits for the study of accounting change in general and the diffusion of MA innovations in particular, i.e. interpreting innovation diffusion through translation process (Chua 1995). According to the translation model, the diffusion of an innovation is a collective process manifested by a chain of actors who are actively participating in shaping the innovations (Latour 1987).

Robson (1991) clarifies that translation is the process through which new and even pre-existing accounting systems are articulated discursively; it thus constructs individuals' and groups' “interest” in those techniques. The innovation diffusion is thus the scene of the progressive construction of a network of divergent actors (Christensen et al. 2010). Such a

²² Latour points out that this translation process is “displacement, drift, invention, mediation, the creation of a link that did not exist before and that to a degree modifies the original [design]” (1999:179).

view of the diffusion of an innovation and the construction of facts has been seen as ANT (*ibid.*). The use of ANT to study the acceptance of an innovation (new accounting system), can help to reconstitute the identity of actors asking to join the networks, and to emphasize the chain of translation of their own interests and the shape of the “stabilized” form progressively taken by the innovation (*ibid.*). Actually, it occurs after facing many difficulties, problems, and minor or major adjustments (*ibid.*).

ANT analyzes fabrication of MA technologies and innovations, which are diffusing as a result of translating the changing and temporary interests of heterogeneous actors, who are looking to maintain their position and influence within organizations and society. In addition, actors use accounting innovations to construct inscriptions (e.g. figures and numbers) and to serve their interests (Preston *et al.* 1992; Robson 1992; Chua 1995; Briers and Chua 2001; Andon *et al.* 2007; Chua and Mahama 2007). ANT thus has been adopted by MA researchers to explain how MA innovations are translated and constructed by accommodating and convincing heterogeneous interests within the organization. Hence, it regards accounting numbers as “fabrications” or “inscriptions” built to be shown as “facts” (Latour and Biezunski 1987; Preston *et al.* 1992; Chua 1995; Briers and Chua 2001; Baxter and Chua 2003; Latour 2005; Baxter and Chua 2006; Andon *et al.* 2007; Chua and Mahama 2007; Alcouffe *et al.* 2008; Tatnall 2010).

MA researchers have applied ANT to accounting research in different ways, including the implementation and fabrication of accounting systems and budgeting practices (Wickings *et al.* 1983; Pinch *et al.* 1989; Preston *et al.* 1992; Chua 1995; Lowe 1997; Lowe 2000; Briers and Chua 2001; Lowe 2001; Lodh and Gaffikin 2003; Andon *et al.* 2007; Chua and Mahama 2007), the diffusion of MAPs or innovations (Firth 1996; Tatnall and Gilding 1999; Briers and Chua 2001; Bjorkman 2003; Jackson and Lapsley 2003; Ax and Bjørnenak 2005; Ax and Bjørnenak 2005; Ax and Bjørnenak 2007; Alcouffe *et al.* 2008; Tatnall 2010), and the translation and change of accounting innovations (Robson 1991; Robson 1992; Sarker and Sidorova 2006; Wongkaew 2006; Wongkaew 2007; Mouritsen *et al.* 2009; Christensen *et al.* 2010; Oliveira 2010).

However, ANT assumes that each actor in the network itself is regarded as a network consisting of different elements, and both human and non-human (system) actors interact to

attain the main goal or interest; hence it deals with each actor as a full network²³ by considering it as “black box” or ‘boundary objects’²⁴ without going into detail (Tatnall and Gilding 1999; Latour 2005). Consequently, MA researchers find it difficult to analyze the elements of each actor separately in detail because, while we can cope with an infinity network, each actor network must be dealt with as ‘black box’ (Tatnall and Gilding 1999; Latour 2005; Alcouffe *et al.* 2008; Christensen *et al.* 2010; Tatnall 2010). Since the ANT examines MAPs and innovations as “black box” or ‘boundary objects’ without opening them or paying any attention to the factors that may affect these innovations, it is not helpful to explain MAC as processes because the level of analysis of these studies lies in boundaries of translation in a broader context (Wickramasinghe and Alawattage 2007).

According to Latour (1999; 2005) and Law (2007; 2008), ANT is more a framework than a theory, which is going to be tested. As stated by Law (2007:1) “theories usually try to explain why something happens, but actor-network theory is descriptive rather than foundational in explanatory terms [...] Instead, it tells stories about ‘how’ relations assemble or don’t”.

ANT focuses on the ideal types of accounting systems and on actors who mobilize new systems; it ignores the process of institutionalization in human actions and institutions. In addition, MA researchers unintentionally neglect the significance of power and politics mobilization, and how power factors might render new systems effective or ineffective (Wickramasinghe and Alawattage 2007). Moreover, MA researchers cannot successfully build their studies in the respective historical and social contexts through which MAPs evolution emerges. Thus, they have avoided setting their case-studies in broader historical contexts, although their studies seem to be longitudinal in nature (*ibid.*). However, the political and historical character of interpretive study requires an alternative perspective (*ibid.*; and see also, Hopper *et al.* 1987; Ashton *et al.* 1991; Cooper and Hopper 2006).

2.7.2.2. Structuration Theory (ST)

Structuration theory was developed by Giddens (1976; 1979; 1984). “Giddens builds his theory of social systems upon a theory of action” (Boland 1985:4). It examines the interaction between individuals’ capacity to make choices (agency) and the reproduction of social structures (rules and resources) (Baxter and Chua 2003). In other words, it examines the

²³ For example: one can here assume that the University of Durham is an actor network; each school in the university is regarded as a network including many departments, and each department is also considered a network including staff, students, technologies, systems, computers, furniture and stationery. All of these elements interact to shape a single network.

²⁴ Boundary objects represent certain abilities and specialties, such as repositories of things, ideal types, coincident boundaries, and standardized methods (Briers and Chua 2001).

duality between agency and structure (Hodgson 1999). Giddens idea of ‘duality of structure’ is based on the assumption that the structure or institutional properties of social systems are shaped by human action (agency), and then they serve to form the future action of human agents. So human action can be viewed, on the one hand, as shaping the institutional properties of social systems and, on the other hand, as being shaped by institutional properties (Orlikowski and Robey 1991). Giddens (1984:376) defines structuration as “The structuring of social relations across time and space, in virtue of the duality of structure”.

Englund *et al.* (2011) argue that the core notion in ST is that structures and systems are recursively interrelated through the duality of structure. Thus, the process of structuration is the process whereby agents replicate social practices (structure) across time and space (Macintosh and Scapens 1990). According to Giddens’ structuration process, there are three dimensions of social structure: signification (meaning), legitimation (morality) and domination (power). In turn, structures are conceptualized as *rules* and *resources*, which are related to the three types of modalities. There are two types of rules: interpretive and normative. Interpretive rules shape structures of *signification* by creating meaning; in turn, normative rules shape structures of *legitimation*, producing a morality involving values. Finally, resources, which are facilitative, can be allocated or authorized, shaping structures of *domination* that produce power (Giddens 1984; Englund and Gerdin 2008; Oliveira 2010). In the process of structuration, the domination structure exists outside the time-space setting occupied by certain users of resources in the social interaction, but it is drawn upon and thus reproduced through such uses of resources (Macintosh and Scapens 1990).

At the same time, Giddens (1984:56) states that agency refers to the actions taken by individuals in social settings, and he points out that it “is a necessary feature of action that, at any point of time, the agent ‘could have acted otherwise’ either positively in terms of attempted intervention in the process ‘events in the world’ or negatively in terms of forbearance”. Individuals, then, can and do make choices in social settings. The structuration process is neither structure nor agency while at the same time it is either process or structure (Macintosh and Scapens 1990). The structuration theory sounds that it is interested in the interplay of agents’ actions and social structures in the creation, reproduction, and regulation of any social order. Structures, existing in virtual time and space, and drawn upon by agents as they work and interact in particular time-space locations, are themselves the result of those actions and interactions (*ibid.*). In this regard, Macintosh and Scapens (1990:462) argue that:

“Management accounting systems represent modalities of structuration in the three dimensions of signification, legitimation, and domination. In the signification dimension, management accounting systems are the interpretative schemes which managers use to interpret past results, take actions, and make plans. In the domination dimension, management accounting systems are a facility that management at all levels can use to co-ordinate and control other participants. And in the legitimation dimension, management accounting systems communicate a set of values and ideals about what is approved and what is disapproved; justify the rights of some participants to hold others accountable; and legitimate the use of certain rewards and sanctions. The concepts, theories, values, ideals, rules etc. upon which management accounting systems are based represent the structural properties of management accounting. Through the modalities described above, management accounting provides for the binding of social interactions in organizations across time and space. These social interactions represent the day-to-day use of management accounting systems; in other words, management accounting practice”.

Accordingly, it has been argued for some time that the scope of MA research should be extended beyond economics and traditional positivistic surveys with a technical-efficiency focus to embrace social and political phenomena (Burchell *et al.* 1980; Cooper 1980; Tinker 1984; Hopper and Powell 1985; Chua 1986; Ansari and Euske 1987; Covalesski and Dirsmith 1988b). As Burchell *et al.* (1980:22) commented two decades ago, “a case can also be made for the study of accounting as a social and organizational phenomenon to complement the more prevalent analysis which operates within the accounting context”. In particular, they urged accounting researchers to consider “the roles which accounting plays in the political processes which characterize organizational and social life, to those factors which have constituted the organization as we know it, and to the ways in which the social and the organizational in accounting intertwine” (P:23). Thus, ST²⁵ has been suggested as a useful framework for attempting to understand the social context of MA in organizations (Boland 1985; Macintosh 1985; Roberts and Scapens 1985; Capps *et al.* 1989).

Macintosh and Scapens (1990:455) conclude that “structuration theory is a more focused, informative, integrative, yet efficient, way to analyse how accounting systems are implicated in the construction, maintenance, and changes of the social order of an organization, than many frameworks used in previous studies”. And Englund *et al.* (2011) state that ST was launched as a particularly valuable framework for explaining accounting as an organizational and social practice. As such, ST has become part of a larger alternative stream of accounting research (Baxter and Chua 2003). As a result, “structuration theory approach sensitizes research and theory building to the role MASs play in producing and reproducing meaning, power, and morality in organizations, provides a framework for understanding the role these systems can play in organizational change, and offers advantages over "either/or" types of

²⁵ According to ST, a focus on social institutions, their idea systems, the conditions and causes of their transformation, the way these forces relate to institutional behavior, and how that behavior persists across generations, is a new and exciting avenue for accounting research and theory building (Macintosh 1985).

accounting conceptual frameworks” (Macintosh and Scapens 1991:131). In this way, ST indicates the ways in which accounting is involved in the institutionalization of social actions (Boland 1996; Scapens and Macintosh 1996).

Giddens’ ST has been adopted by a number of MA researchers in their analyses of MAPs and systems in general (Macintosh and Scapens 1990; 1991; Boland 1993; 1996; Scapens and Macintosh 1996; Barley and Tolbert 1997; Hodgson 1999; Jones *et al.* 2004; Jack and Kholeif 2008; Jones and Karsten 2008) and budget analysis in particular (Boland 1985; Covalesski and Dirsmith 1988a; 1988b; Edwards *et al.* 2005). Roberts and Scapens (1985) have introduced Giddens’ ST into accounting research by advocating a shift in focus from studying accounting systems *per se* to studying systems of accountability. In this respect, Macintosh and Scapens (1990:462) argue that “management accounting systems are the interpretative schemes which managers use to interpret past results, take actions, and make plans”. Unlike Macintosh and Scapens (1990), Boland (1993:125-126) argues that

“managers draw from a wide range of interpretive schemes, facilities and norms in making their interpretations. Management accounting systems may mediate this interpretive process, but they can do so in surprising and unexpected ways”. Also, he asserts that they adopt an institutional perspective which views things only from distance and “do[es] not allow us to see the ‘knowledgeable, purposive human actor’ [...] who is producing and reproducing social structure through management accounting practice”. “As a result of this view from a distance, management accounting is portrayed [...] as a monolithic set of structuring properties”.

In reply to Boland (1993), Scapens and Macintosh (1996:676-677) strenuously reject his claim, arguing that their study clearly recognized the significance of agency and their discussion did not ignore the agency of the actors. They stated:

“In rebutting Boland’s (mis-)reading of our paper, we contend that he: 1) did not grasp our central theme: (2) failed to understand our project: (3) accused us unjustly of not recognizing the interpretive power of agents in ‘reading’ their social world, and (4) used his criticism of our paper to advance his own monolithic theory of management accounting as a creative, open interpretive act on the part of agents who ‘make’ the meaning of management accounting systems”.

In response to Scapens and Macintosh (1996), Boland (1996) concludes as follows:

In ST, “Giddens is careful to note that interpretative schemes are ‘standardized stocks of knowledge, applied by actors in the production of interaction’ (1979, p. 83). Stocks of knowledge are words, phrases, or images that are known in common by the actors and are available to them for use in language-games to make meaning. They are not the coherent, consistent, uniform, ‘monolithic’, meaning structures that Scapens and Macintosh portray” (P: 692). He also states that “the examples I gave in ‘Accounting and the Interpretive Act’ (Boland, 1993) were examples of what managers actually did when they interpreted those reports. If we want to know how action is mediated by management accounting systems, we must look and see. I will agree to continue doing that, if Scapens & Macintosh will agree that when they see a pattern or form reproduced at the institutional level of analysis, they will not assume that it represents shared meanings among actors” (P: 697).

Whereas Giddens' work has reinforced some spirited meta-theoretical debate within MA literature (e.g., Boland 1996; Scapens and Macintosh 1996), ST has had only a small effect on descriptions of management accounting practice (Baxter and Chua 2003). Similarly, Macintosh and Scapens (1991) conclude that ST has had only limited impact on the nature of MAPs with brief references. Archer (1995) argued that the limited impact of Giddens' approach is a result of its ignorance of the historical context and that the interaction between structure and agency can never be measured without the time factor. Scapens (2006) contends that ST is particularly not helpful in exploring the process of MAC. On the contrary, the modalities of structuration cannot be managed in a vacuum, but are embedded within historical and organizational contexts. These contexts influence how an accounting system is developed, deployed, used and institutionalized, and need to be understood within the structuration framework (Orlikowski and Robey 1991).

However, it is significant to emphasize that ST itself is not primarily concerned with the nature of social structures but, rather, with the relationship between structures and the activities of human agents (Macintosh and Scapens 1990). Hence ST is a general theory of social organization rather than a theory specific to information systems (Orlikowski and Robey 1991). A number of scholars have suggested that ST is best considered as a meta-theory, a way of thinking about the world, rather than as an empirically testable explanation of social behavior (Gioia *et al.* 1994; Jones 1999; Englund and Gerdin 2011). In addition, ST provides ideas for effectively bridging levels of analysis, thus constructing a more complete social theory (Markus and Robey 1988; Orlikowski 1993). Since ST has very much inspired this study, it has been discussed in chapter three as meta-theory and a theoretical base of the contextual framework.

2.7.2.3. The Relevance of Institutional Theory

The purpose of this section is to recognize and articulate the institutional dynamics associated with organizational practices. Institutional theory is a way of thinking about formal organization structures and the nature of the historically grounded social processes through which these structures develop. A predominant factor underlying the growth of institutional theory in the organizational change literature is its wide range of applicability. Initially, the sociologically-based institutional theorists supposed that institutional themes were only applicable to institutionalized organizations. However, it has recently become apparent that institutional theory can be used to analyze all types of organizations because all organizations

are institutionalized organizations, albeit to varying degrees (Scott 1995; Dillard *et al.* 2004). That is, all organizations are subject to regulative processes and operate under local and general governance structures. All organizations are socially constituted and are the subject of institutional processes that “define what forms they can assume and how they may operate legitimately” (Scott 1995:136).

Unlike the functionalist researchers, who have considered the context as a given phenomenon, interpretive researchers explore how context can be an explanatory variable for understanding MAC, and the interplay between the context and the function of accounting (Burchell *et al.* 1980). Whereas functionalists believe that individuals and organizations play passive roles in relation to the functioning of accounting, interpretive researchers look at how individuals construct meanings and values for those functions (Hopper and Powell 1985; Chua 1986; Wickramasinghe and Alawattage 2007). Thus, to understand MA in practice, accounting researchers began to conduct case-studies (rather than surveys) by locating them in particular contexts (Scapens 1990; 1994; Scapens and Burns 2000; Scapens 2006). As a result, the interpretive perspective developed from a critique of functionalism. Hence institutional theory emerged from a critique of the neoclassical economic perspective (Scapens 1994; Scapens and Burns 2000; Scapens 2006).

This section reviews that MA studies that have been using institutional theories (both OIE and NIS). On the one hand, institutional theory starts from structuration theory as a way to extend the theoretical domain of MA theory into the social realm. It also attempts to identify how theory can be grounded in empirical case-studies (Macintosh and Scapens 1991). One such commendable development has been institutional theory built on OIE and evolutionary economics (Scapens 1984; 1985; 1990; 1994). This development emerged in response to recognition of the apparent gap between MA theory and practice (Scapens 1984). Scapens (1984) concluded that most UK and US organizations did not use sophisticated (advanced), mathematical decision-making models, which developed from neoclassical economic theories and were presented in mainstream MA textbooks (e.g., Horngren 1977) instead of reflecting on actual practice. Hence, this gap is largely a result of the problems of underlying assumptions of neoclassical economic theories of management accounting models (Wickramasinghe and Alawattage 2007). According to these problems, institutional theory has been launched to explain MAPs, particularly studying changes occurring in current practices (Scapens 2006).

Scapens (1994:301) pointed out that the research focus should be on ‘the study of management accounting practice *per se*’, rather than on the gap between theory and practice. He aimed to develop institutional theory drawing on the ideas of OIE and evolutionary economics (e.g., Veblen 1898; Hamilton 1932; Nelson and Winter 1982). Winter and Nelson (1982) emphasized the habitual and routinized nature of business practices, including accounting practices, and conceptualize how such routines, over time, underpin an organization’s know-how. Scapens (1994) used OIE to develop an alternative framework for understanding MAC at organizational level. He showed three significant elements in this framework: rules, routines and actions. In this way, alternative assumptions can be constructed through the dynamics of institutions, which aid an understanding of the processes of change by putting MAPs in their historical context as well as in their economic, cultural and social contexts (Ryan *et al.* 2002). Accordingly, Burns and Scapens (2000) have developed a new institutional framework that is considered a particular starting point for explaining MAC within a specific organization.

On the other hand, a new approach to institutional theory emerged with Meyer and Rowan (1977) and Zucker (1977), who highlighted the role of exogenous factors in institutional analysis, drawing on Selznick (1948). From a macro perspective, Meyer and Rowan (1977) emphasized the role of modernization in rationalizing taken-for-granted rules, leading to isomorphism in the formal structures of organizations²⁶. From a micro perspective, Zucker (1977) also emphasized the taken-for-granted nature of institutions and the role of cultural persistence as a measure of institutionalization. DiMaggio and Powell (1983) extended Meyer and Rowan’s (1977) focus on isomorphism from the societal level to the level of organizational fields. With their emphasis on coercive, normative, and mimetic sources of isomorphism, DiMaggio and Powell’s approach led to an explosion of empirical analysis (Thornton and Ocasio 2008). In the same line with DiMaggio and Powell, Scott (1995; 2005; 2008) stated that the fundamental components of external institutions had to be the regulative (coercive), the normative, and the cognitive-cultural (mimetic). Recently, Dillard *et al.* (2004) developed a framework combining OIE research on internal institutionalization processes with recent NIS research on extra-organizational pressures.

²⁶ Meyer and Rowan (1977) argue that organizations had to conform to the requirements of external environments for legitimacy, which meaning that parts of organizations had to be loosely coupled from their technical core.

Dillard *et al.*'s (2004) framework has theoretical roots characterized by the assumptions of structuration theory (Giddens 1984). Also, Burns and Scapens' (2000) framework was influenced by the notions of OIE (Hodgson 1988), structuration theory (Giddens 1984) and evolutionary economics (Nelson 1995). Burns and Scapens' framework is grounded in the duality of action and institutions. This duality has been further elucidated by drawing on Giddens' (1984) structuration theory (Macintosh and Scapens 1990; Barley and Tolbert 1997). As a result, institutional theory shares the views of structuration theory (Wickramasinghe and Alawattage 2007). Since both OIE and NIS assumptions are compatible with the structuration theory assumptions. Hence, Dillard *et al.*'s framework can be integrated with Burn and Scapens' framework to explain the process of institutionalization at organizational level, as well as at societal and organizational field level, by adopting recent NIS ideas. As a result, institutional theory has become the most popular choice among MA researchers seeking to understanding why and how accounting has become what it is, or is not (Moll *et al.*, 2006).

A number of MA studies have been conducted to examine management accounting change from macro perspectives drawing on NIS theory. Covaleski and Dirsmith (1986; 1988a; 1988b) adopted an institutional perspective to investigate how, by whom, and for what purposes societal expectations of acceptable budgetary practices are articulated, implemented and modified during a period of organizational decline. They suggest that the process of institutionalization appears to be infused with power and vested interest both within the organization and in extra-organizational relations, with the latter appearing to play a dominant role in periods of organizational decline. Covaleski *et al.* (1993) used an institutional perspective to extend the conceptualization of case-mix accounting systems, regarding the issues of power and decoupling, by considering institutionalization as an on-going process in the US healthcare context. They proposed that the adoption of case-mix accounting systems reflects a need to conform to societal expectations of acceptable practice as much as the technical imperative of reinforcing rationality. Alam (1997) drew on institutional theory to investigate the technical and symbolic roles of budgeting in two state-owned organizations in Bangladesh. This study concludes that, in conditions of high uncertainty, budgeting is more oriented towards the management of external relationships.

Brignall and Modell (2000) explore the implications of institutional theory for the successful implementation of multidimensional performance measurement and management in the public

sector. They recognized that managerial choice constitutes a useful starting point for analyzing how performance measurement practices change in highly institutionalized settings, such as the public sector. Modell (2001; 2003; 2004; 2009) and Modell *et al.* (2007) have conducted their studies to trace the development of performance measurement practices in response to the requirements of the Swedish public sector. Their studies made two contributions to NIS. First, loose coupling between many of the performance indicators reducing the likelihood of potential conflict; second, loose coupling may occur as a result of the passivity of centrally located actors as well as proactive resistance. Also, Modell (2002) drew on institutional theory to explore the influence of institutional pressures on implementation of cost allocation practices. Modell has developed a framework to reflect how interaction between extra-organizational pressures and organizational power relationships influences the coupling of cost allocation practices with operating control.

Hoque and Hopper (1994) used institutional theory to study the impact of external factors on management control systems in Bangladesh jute mill. Their study confirms the conclusions of other studies claiming that the broader social, economic, political and institutional contexts govern the ways management control systems operate in the organization. In the same way, Abernethy and Chua (1996) drew on the institutional perspective to demonstrate the design and operation of management control systems. They identified how accounting controls operate as part of an organizational control 'mix', which is actively shaped by the strategic choices of its dominant coalition. Hussain and Hoque (2002), along the same lines as Hussain and Gunasekaran (2002), studied the relationship between external factors and use of non-financial performance in banks. Both studies recognized that extra-institutional factors influenced the design and use of non-financial performance systems.

Hopper and Major (2007) extended institutional analysis by adopting theoretical triangulation (including NIS by drawing on Dillard *et al.*'s Model, ANT and labor process) to examine why ABC was adopted in a Portuguese telecommunications company (see also, Major and Hopper 2005). The contributions of their study are several. First, it confirms various criticisms of ABC; second, it also confirms criticisms of early NIS research; and finally, Dillard *et al.*'s model requires an extension using theoretical triangulation. Cruz *et al.* (2009; 2011) looked at a joint venture (JV) set up by a Portuguese company and a global corporation (GC) in the hospitality sector. They have examined how and why the JV's managers launched variations (heterogeneous practices) in the management control (MC) rules and procedures in

institutionalizing the global MC system imposed by the GC. They conclude that, although institutional and technical criteria were not in dialectical tension, the JV's managers adapted the global MC system by developing loosely coupled MC rules and practices to satisfy the multiple logics informing it.

Other MA studies have been conducted to explain management accounting change from micro perspectives drawing on OIE theory. Vaivio (1999) used an institutional framework to explain the implementation of non-financial measures in the organizational context of Lever Industrial-British Chemicals Company. He concludes that non-financial measures become a powerful vehicle for focusing interactive management control on the organization's strategic uncertainties. Burns (2000) also used an institutional framework and a framework of power mobilization to tease out the dynamics characteristics of the processes of accounting change in a small UK chemicals manufacturer. He identified how implementation of new accounting practices is likely to be less problematic when such change is compatible with existing rules, routines, and institutions.

Johnson *et al.* (2000) drew on institutional theory and script development to conceptualize privatization as the change from one institutional template to another. They recognized that this could be understood through the micro-processes whereby actors are de-institutionalized from the public sector and re-institutionalized into the private sector through a two-way process of influence mediated by the enactment of interactive scripts. Collier (2001) applies institutional theory at the organizational level of analysis in order to understand the emergence of local financial management in a police force organization. Collier contributes to institutional theory by adding value to the particular development of understanding of relations of power and explaining how loose coupling can take place through accounting. Busco and Scapens (2011) and Busco *et al.* (2001) have focused on exploring the nature, roles and dynamics of change of MASs, in processes of continuous organizational learning and transformation. They have developed an institutional framework for interpreting the ways in which routinized systems of accountability connect the on-going processes of cultural transformation across time and space.

Seo and Creed (2002) used a dialectical perspective to provide a unique framework for understanding institutional change. In their framework, institutional change is viewed as an outcome of the dynamic interactions between two institutional by-products: institutional

contradictions and human praxis. In the same way, Burns and Baldvinsdottir (2005) drew on institutional theory to describe the emergence of new team/process-oriented roles ('hybrid' accountants) in the manufacturing division of a multinational pharmaceuticals organization. They highlight the institutional contradictions that create potential openings for change, and discuss the praxis that underpins when, how and why role(s) change has been carved out (see also, Burns and Nielsen 2006). Ahmed and Scapens (2000; 2003) show how the institutional perspective can help to explore the historical development of cost-based pricing (cost allocation) rules in Britain. They conclude that cost-based pricing rules were viewed as instrumental in bringing stability and control to a market that was operating in an apparently unacceptable way, and were implicated in a variety of restrictive practices.

Some researchers have focused on examining the success or the failure (resistance) of new systems. On the one hand, Soin *et al.* (2002) used institutional theory to interpret the implementation of an Activity-Based Costing (ABC) system in the clearing department of a UK-based multinational bank. They identified that the ABC team succeeded in institutionalizing a less radical version of ABC that revealed new links between costs and products, but did not go as far as to transform the strategic thinking of the bank's senior management. Jazayeri and Hopper (1999) and Lind (2001) examined the impact of world-class manufacturing on MA. Jazayeri and Hopper (1999) concluded that MA is unaffected by world-class manufacturing. Burns *et al.*, (2003) affirmed that, in Jazayeri and Hopper's (1999) case company, the external pressures led to the introduction of new accounting systems, for example JIT and TQM. Busco *et al.* (2002) showed that how organizational culture and measurement-based systems can evolve simultaneously. They concluded that the emerging systems of measurement and performance accountability can be seen as socially constructed, validated practices through which organizational culture is created, stored, and transmitted across space and time.

On the other hand, Scapens and Roberts (1993) demonstrate how the process of MAC unintentionally created conditions that would overcome and challenge the dynamics of the change. Ezzamel and Burns (2005) examined a failed change initiative (the implementation of economic value added, EVA) in a case-study of a major UK retailer. They explain how power relations have mobilized organizational actors in their struggle against management control strategy. They conclude that EVA had failed to become a part of the daily information used by different organizational levels. Jansen (2011) explored how the leadership styles of

managers have affected the information receivers' reaction to MAC (implementation of standard service prices). Hence, the employees have resisted the change that the senior management has imposed through the transactional leadership style. Nevertheless, the successful introduction of new MAPs shows that, when senior managers pay attention to agents of change, there is less resistance and change can take place.

Seal (1999) used institutional theory to explore the implementation of compulsory competitive tendering (CCT) in UK local government. He explained how local governments had resisted central government in attempting to introduce widespread CCT. Granlund (2001) explores why accounting systems can sometimes prove to be difficult to change, despite significant operating and environmental pressures for change. He illustrates that key resisters to change (or guardians of stability) include organizational routine, conservative organizational culture and failure to legitimate change intentions. Seal (2006) uses institutional theory of agency to identify tensions between emerging narratives and the routinization of strategy implicit in strategic management accounting and corporate governance. In the same way, Bhimani (2009) explains the relationship between risk management, corporate governance and MA. He notes that this relationship has been continually reassessed in the light of economic changes, and is inextricably interdependent.

Kasim and Aziah (2004) explain how tensions and conflicts between accountants and operations managers led to the loose coupling of budgets that were introduced to generate increased financial awareness and improved efficiency in the daily provision of public services. They have developed an institutional framework that treats loose coupling as both a *process* and an *outcome*, and recognizes the intertwining of trust, resistance and power. Siti-Nabiha and Scapens (2005) explore the relationship between "stability and change" within the process of accounting change in value-based management (VBM) and key performance indicators (KPIs). They show how decoupling can occur through the working-out of a complex and dynamic process of resistance to accounting change, a process that simultaneously involves both stability and change. Lukka (2007) asks *why* it appeared that there were problems without solutions, and *how* Finnish organizations managed the situation. He observes that there are a few signals of resistance to change, while change and stability can indeed coexist. Moreover, he concludes that pressures to change through flexibility within the informal domain have to be seen as a solution in the short run.

However, the above studies have been conducted in two ways: at a purely intra-organizational level by adopting OIE theory, or a purely extra-organizational level by adopting NIS theory. A few studies in MA literature have adopted a hybrid (contextual) framework that combines OIE, NIS and power mobilization theory (Dillard *et al.* 2004; Yazdifar 2004; Yazdifar *et al.* 2008; Ma and Tayles 2009; Zoubi 2011)²⁷ Yazdifar *et al.* (2008) state the NIS theory tends to be harmonized with other institutional perspectives, which focus on internal organizational factors. When NIS and OIE are combined, they lead to the adoption of a holistic framework (Yazdifar *et al.* 2008). In this regard, Dillard *et al.* (2004: 512) affirm that “Burns and Scapens’ ideas could be integrated” into Dillard *et al.*’s (2004) framework at the organizational level. They also declare that “the framework provided by Burns and Scapens (2000) might be applied in describing the micro process taking place” (2004: 533) within an organization. MA authors use the integration between OIE and NIS theories in order to avoid the flaws in each theory (Ribeiro and Scapens 2006; Scapens 2006; Ma and Tayles 2009). Accordingly, this study adopts a holistic view by drawing on integration between OIE, NIS and power mobilization theory to explain the processes of change in the Jordanian Customs Organization (JCO).

2.8. Conclusions

The literature review chapter articulated an overview of understandings of management accounting and organizational change, and a review of the literature on MAC. Management accounting literature asserted that the nature of management accounting is not static; rather, it is dynamic and variable over time, and the focus of the research gap is on how certain MAPs emerge and change over time. The literature cited above showed that the dynamics of MAC were clearly manifested in planning, controlling, performance evaluation and decision-making processes. It also identified that changes in both extra- and intra-organizational factors have influenced changes in management accounting systems in organizations. Hence, it is highly significant to recognize the role of power, politics and culture as internal factors, as well as political and economic factors as external factors. Besides, the literature discussed organizational change in terms of its meaning, types, and the two dominant approaches used in research on organizational change, highlighting the contextual approach. This study emphasizes the importance of using a contextual approach in analyzing the processes of MAC. MA literature also discussed MAC as part and parcel of the organizational change and

²⁷ These studies were conducted in the private sector, whereas this study will be conducted in the public sector.

the main factors affecting MAC. The rationale of this is that management accounting is considered an integral part of organizational management.

In this regard, a discussion of alternative theoretical perspectives for understanding MAC was introduced. These alternative perspectives have been used in management accounting literature and include neoclassical economic theory, NIE, agency theory, contingency theory, and actor-network theory. However, these perspectives have examined the change in MAPs from rational and optimal positions; hence they have proved their inability to explain MAC as a complex process. Furthermore, they have seen the process of change as static, as an outcome, and as a planned and simple phenomenon. However, change is seen as a dynamic, emergent and complex process that should be studied in its social and organizational contexts by adopting an alternative institutional framework. The following chapter adopts and discusses three institutional approaches as alternative perspectives to explain MAC. It draws on theoretical synthesis of three institutional theories, NIS, OIE and power mobilization theory, to develop a new institutional 'contextual' framework.

CHAPTER THREE: THE THEORETICAL 'CONTEXTUAL' FRAMEWORK OF MANAGEMENT ACCOUNTING CHANGE

3.1. Introduction

In the previous chapter, the relevant literature relating to MAC was reviewed. Additionally, the most important factors influencing MAPs and systems were discussed. Moreover, the review of alternative theoretical perspectives revealed that rational perspectives are incapable of investigating the processes of change. As a result, an alternative approach to explain the processes of change might be provided by institutional theory. Besides, the selection of institutional theory as the framework for this study is based on calls for studies on management accounting in the context in which it operates (see Burchell *et al.* 1980; Hopwood 1983; 1987; 1990; Hopwood and Miller 1994; Scapens 1994; 2006). Consequently, this study explains the processes of MAC in a recursively cascading manner in the JCO case-study, after the introduction of public sector and fiscal reforms. So, this chapter provides the theoretical underpinnings and interpretive lenses of this study, drawing on multi-levels of institutional analysis. In particular, it develops a new contextual (institutional) framework by synthesizing three different perspectives in a sequential order: new institutional sociology (NIS) theory for exploring external pressures (i.e. powers) for change at the societal level (Dillard *et al.* 2004); old institutional economics (OIE) theory for explaining internal processes of change at the micro level (Burns and Scapens 2000); and power and politics mobilization over the change (Hardy 1996).

The synthesis and refinement of the contextual framework is constructed by Dillard *et al.* (2004), Burns and Scapens (2000), and Hardy (1996) from one side, and Pettigrew (1987) and Dawson (1994) from another side, as a new theoretical framework for conceptualizing management accounting change as well as organizational change. This is deemed an innovative aspect of the study because this is the first attempt to synthesize these three theoretical frameworks precisely under one conceptual framework in order to provide a holistic view about processes of change, drawing on an interpretive case-study (see Van de Ven and Huber 1990: 213). An institutional 'contextual' framework could serve as a basis for understanding and analyzing processes of MAC after the introduction of NPM reforms. In particular, to further understand change processes in organizations, including the causes of their introduction and their effects, it may be interesting to provide a broad analysis of MAC

in the public sector that is based on multi-levels of institutional theory (Ter Bogt 2008). It seems that, thus far, little pragmatic research has been conducted with respect to the possible contributions of institutionalism to an understanding of gradual MAC in the public sector at multi-stages. However, institutional theory may provide a basis on which to interpret and analyze the reasons for introducing NPM reforms – such as accounting changes and the change processes in public sector organizations, and their effects (Nor-Aziah and Scapens 2007; Gomes *et al.* 2008; Ter Bogt 2008).

This chapter is divided into the following sections. The first section briefly depicts the main aspects of Giddens' structuration theory as meta-theory and theoretical foundation of the proposed framework inspired by institutional theory. It suggests that a re-conceptualization of the duality of structure and agency may extend the explanatory potential of institutional theory and identifies linkages with other theoretical issues developed in the remainder of the chapter (in particular, power). The second, third and fourth sections discuss in detail three approaches of institutional framework used in this research: NIS, OIE, and power theory, respectively. In this venue, the main assumptions, recent perspectives, and ideas of these approaches are presented, especially the process of institutionalization, at three levels of institutional analysis. The final sections show the main limitations of the previous approaches, discuss their interrelationships with structuration theory, and suggest the integration between them. In addition, this chapter introduces a new contextual framework to inspire the objectives of this study, and it provides the rationale of this framework. It is expected that this framework will be able to support the understanding of the complex 'mishmash' of interrelated factors at the micro and macro levels that shape MAPs.

3.2. Structuration Theory (ST) as Meta-Theoretical Base

Giddens' ST operates at a high level of abstraction (Yang 2010; Englund *et al.* 2011). It is not intended as a guide for empirical study, but as an ontological theory or a meta-theory²⁸ (*ibid.*). Despite the difficulty in applying it to empirical testing, it has been operationalized to study

²⁸ Meta-theory is largely the study of theory, including the development of overarching combinations of theory, as well as the development and application of theorems for analysis that reveal underlying assumptions about theory and theorizing [Wallis, S. E. (2010). "Toward a science of metatheory." *Integral Review* 6(3): 73-120]. A meta-theory is a set of interlocking rules, principles, or a story (narrative), that both describes and prescribes what is acceptable and unacceptable as theory - the means of conceptual exploration - in a scientific discipline. The prevailing meta-theory might prescribe that change of form (transformational change) is, or is not, a legitimate way of understanding developmental change [Overton, W. F. (1990). Metatheory and methodology in developmental psychology].

organizations, institutions and systems (DeSanctis and Poole 1994). Jones (1999) develops four ways of using the theory: reconstructing it to accommodate a topic, applying it as an analytical tool, treating it as meta-theory, and using its ideas to inform research. This chapter borrows the ST²⁹ as meta-theory, using its ideas to inform the research. There is no attempt here to explain ST in detail, and only its main features are sketched (i.e. it is revealed, as secondary literature constitutes a good interpretive guide).

ST is concerned with understanding the relationship between the actions of knowledgeable human actors and social structures in the production, reproduction, and regulation of social systems (see Giddens 1976; 1979; 1984; 1987). Giddens' ST thus distinguishes between systems and structure. Systems involve visible practices that are reproduced through time and space by the actions of human agents, while structure refers to structuring properties that connect (bind) those social practices with systems (Giddens 1984; Macintosh and Scapens 1990). Systems, thus, are not the same as structures; rather, systems have structures that include rules and resources, which are abstract codes or templates continuously reproduced through social interaction (Giddens 1984). In turn, reproduction of structures is viewed as both enabling and constraining (conditions) of human action or agency, the outcome of which is unintended consequences (Giddens 1979; Granlund 2003). This reflects the notion of the duality of structure through which structure is recursively organized as a set of rules and resources (Giddens 1984; Macintosh and Scapens 1990).

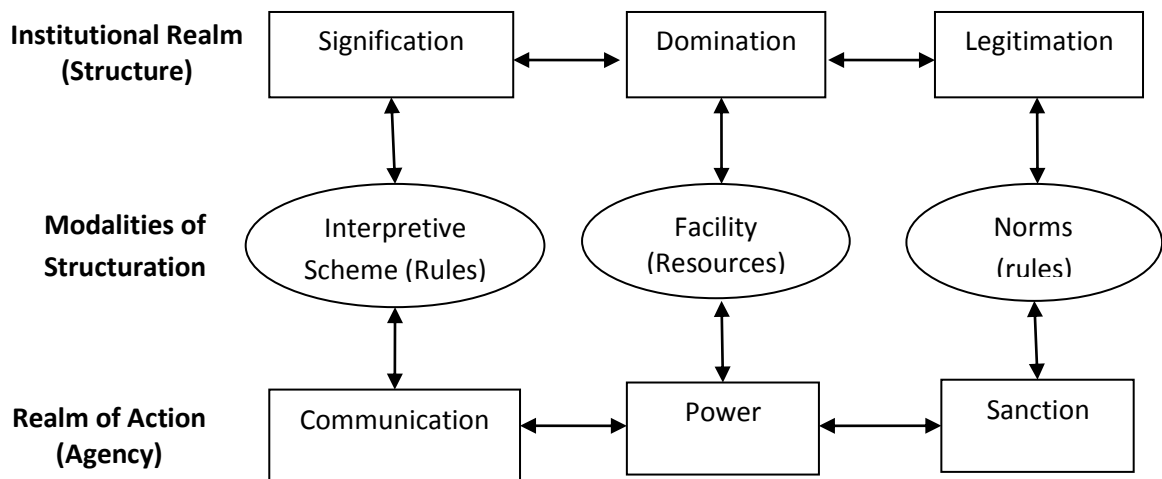
For Giddens the duality of structure denotes the "essential recursiveness of social life, as constituted in social practices: structure is both medium and outcome of the reproduction of practices"; they recursively organize (1979:69). His emphasis thus is on structuration as an on-going process instead of structure as a static property of social systems (Orlikowski and Robey 1991). Through the duality of structure, ST binds structure to agency, which is the intentional actions of self-conscious individuals to reflexively monitor their own and others'

²⁹ Giddens (1984:2-3) affirms that the basic domain of ST is

"Neither the experience of the individual actor, nor the existence of any form of societal totality, but social practices ordered across space and time. Human social activities, like some self-reproducing items in nature, are recursive". In ST, "a hermeneutic starting-point is accepted in so far as it is acknowledged that the description of human activities demands a familiarity with the forms of life expressed in those activities". "It is the specifically reflexive form of the knowledgeability of human agents that is most deeply involved in the recursive ordering of social practices. Continuity of practices presumes reflexivity, but reflexivity in turn is possible only because of the continuity of practices that makes them distinctively 'the same' across space and time. 'Reflexivity' hence should be understood not merely as 'self-consciousness' but as the monitored character of the ongoing flow of social life".

actions in social settings (Macintosh and Scapens 1991; Macintosh 1994), also known as the reflexive monitoring of conduct or action (Giddens 1979). Giddens suggests that structure and agency are a mutually constitutive duality. Thus, social systems are not the product of either structure or agency, but of both. Social structure is not sovereign of agency, nor is agency sovereign of structure. Rather, human agents draw on social structures in their actions, and simultaneously these actions serve to produce and reproduce social structure (Giddens 1984; Conrad 2005).

Giddens (1984) defines the duality of agency and structure through which structure (rules and resources) is organized as properties of systems on the one hand; meanwhile systems are reproduced relations between actors or collectivities organized as regular social practices on the other. Both happen within the process of structuration, which is the conditions governing the continuity or transformation of structure, and hence the reproduction of systems. Systems encompass three structural dimensions (see Figure 3-8): signification (meaning), domination (power) and legitimation (morality) (Giddens, 1984); although separable analytically, these three dimensions are inextricably linked (Macintosh and Scapens 1990). These three structures are portrayed as rules and resources, which are correlated with the three modalities of structuration. Two of these types are rules: interpretive and normative. Interpretive rules shape structures of signification by creating meaning; in turn, normative rules shape structures of legitimation, producing a morality involving values. Finally, there are resources, which are facilitative; they can be allocative or authoritative, shaping structures of domination that produce power (*ibid.*, and see also, Oliveira 2010). As a result, "The concept of structuration involves that of the duality of structure, which relates to the fundamentally recursive characteristic of social life, and expresses the mutual dependence of structure and agency" (Giddens 1979:69).

Figure (3-8) Giddens' Structuration Process

(Adapted from Giddens, 1984:29)

Giddens seeks to prove that both realms - social action (agency) and social structure - can coexist. He supposes that all human interaction is inextricably composed of structures of meaning, power and moral framework, and that any interaction can be analyzed in terms of them. He shows three 'modalities' that link the realm of action and the realm of social structure: interpretive schemes, resources, and norms. Interpretive schemes are standardized, shared stocks of knowledge that humans draw on to interpret behavior and events, hence achieving meaningful interaction. Resources are the means through which intentions are realized, goals are accomplished, and power is exercised. Norms are the rules governing sanctioned or appropriate conduct and they define the legitimacy of interaction within a setting of moral order. These three modalities specify how the institutional properties of social systems mediate deliberate human action (agency) and how human action constitutes social structure. The relation between the realms of social structure and human action is referred to as the recursive nature of the "process of structuration" (Giddens 1979; Orlikowski and Robey 1991).

ST thus permits elimination of the artificial partitioning of research attention between macro and micro levels of analysis, because the process of structuration manages at multiple levels of analysis: the organization, organizational field, and social system (Orlikowski and Robey 1991). By explaining how individual action and interaction shape shared meanings of social structure, Giddens exceeds the 'unit of analysis' crisis suggested by Pfeffer (1982), Rousseau (1985) and others. Rather than requiring analysis at either the organizational level or

organizational field level (see also, Glick 1988; James *et al.* 1988), ST provides notions for effectively bridging multiple levels of analysis, thus conducting a more holistic social theory (Hartman 1988; Markus and Robey 1988; Orlikowski and Robey 1991).

In MA literature, management accounting systems represent three types of modalities of structuration, while they can be viewed as interpretive schemes (interpretive rules), embody organizational norms (normative rules), and comprise authoritative and allocative resources (coercive recourses) (Macintosh and Scapens 1990; Macintosh 1994; 1995). Related to domination, the dialectic of control refers to how the less powerful manage resources in order to exercise control over the more powerful (Giddens 1984). However, Giddens' ST was used as a meta-theory, and its high levels of abstraction made its use in empirical accounting research difficult, even doubtful (Coad and Herbert 2009; Oliveira 2010). As we discussed in the previous chapter, ST has influenced an important stream of MA research and inspired institutional theory, largely via the seminal work of Macintosh and Scapens (1990; 1991), Macintosh (1994) and Scapens and Macintosh (1996). Accordingly, some MA researchers have adopted the ideas of ST to develop new a institutional framework, to help them to understand MAC, by integrating some insights of ST with institutional theory (see, DiMaggio and Powell 1983; Barley and Tolbert 1997; Burns and Scapens 2000; Dillard *et al.* 2004). The following sections explain this integration in more detail and provide a comprehensive institutional framework for understanding MAC.

3.3. Institutional Theory

As discussed before, MAC is a complex and continuous process; in this manner, a contextual approach is essential to study the processes of MA change and to tease out the complex features of the processes of change and explore the significance of power and politics within the organizational context. Since various theoretical perspectives are useful in understanding organizational phenomena and as no single theory (Fligstein 1993) is fully able to interpret social complexity, "a pluralistic, multi-institutional approach promises much more" (Burns 2001:34). Hence, "no understanding nor explanation is possible without theory" (Hodgson 1998a:174); similarly "no single theory satisfactorily embraced all facets" (Hopper and Major 2007:4). Accordingly, this study moves forward toward a pluralistic (multi-institutional approach) debate in order to provide further insights and developments into understanding the

subject of study. In this area, prominent scholars³⁰ in the economics and sociology literature emphasize that there are possible benefits from integration and association through the dialogue between different theoretical approaches and joint work through overlapping ideas, on the interaction basis of separate disciplines and mutual dialogue.

Institutional theory tends towards the deeper and more flexible aspects of social structure. It emphasizes the processes by which structures, including schemas, rules, norms and routines, become launched as authoritative procedures for social behavior (Scott 2004). It inquires into how these aspects emerged, and how they have been diffused, adopted and adapted over space and time, as well as how they fall into decline and disuse (*ibid.*). Institutionalists highlight the relationships created between major cultural aspects in a social context, such as symbols, institutions, beliefs, values and cognitive systems, and the organizations and individuals that operate within this social context (Wanderley *et al.* 2011). These aspects often achieve an institutionalized status in the sense that they reflect the widely shared structures of reality and tend to be taken for granted as legitimate (*ibid.*). The key assumptions of institutional theories (NIS & OIE) are concerned with how institutions shape the actions of individuals and how new rules and institutions may emerge (Ribeiro and Scapens 2006). Under institutional logic, MASs are seen as inextricably linked with prevailing rules and norms that design organizational life (Burns and Scapens 2000; Wanderley *et al.* et al. 2011).

The main aim of institutional theories is to provide an alternative framework with a sociological flavor (Wickramasinghe and Alawattage 2007). Although there are disparities in different institutional theories in terms of the ways that MAC can be conceptualized (Yazdifar 2004), significantly there is some overlapping between OIE and NIS which opens the path for *pluralism* regarding common themes, rather than debates on methodological incongruence (Burns 2001). Thus, the insights of institutional theory have become the most popular choice among MA researchers who seek to understand why and how accounting has become what it is, or is not (Moll *et al.* 2006). Similarly, contemporary institutional theory has captured the attention of a wide range of scholars across the social sciences and is utilized to study systems ranging from micro interpersonal interactions to macro social frameworks (Scott 2005).

³⁰ The core group of scholars from the literature organized a long-term research program titled "Institutions, actors and institutionalization" to achieve Network institutional theory. They also point out: "[...] Whereas it may be [a] bad idea to attempt to achieve syntheses where methodologies and explanatory objectives of the various approaches clearly diverge, it may be a good idea to overcome unnecessary and outdated disciplinary boundaries and joint efforts based on different positions of strength in joint work on themes, challenges and dilemmas of common interest". Source: <http://magenta.ruc.dk/cbit/forskning/projekter/institutional>.

Institutional theory has cultural and anthropological dimensions that can provide a basis to understand MAC as institutionalized routines and to explain the interaction between MA and social context (Scapens 1994). As a result, the study of institutions is now witnessing a renaissance in the social sciences (DiMaggio and Powell 1983).

Accordingly, the following sections present and discuss a new theoretical framework to study MAC through theoretical synthesis drawing on NIS, OIE and power mobilization theory. More specifically, the theoretical (contextual) framework combines three different frameworks that explain organizational change, including MAC, namely Dillard *et al.*'s (2004) framework, Burns and Scapens' (2000) framework, and Hardy's (1996) framework. Thus, the following sections seek to provide the basis of the proposed theoretical framework by explaining the core assumptions of the adopted theories upon which this framework is based.

3.4. New Institutional Sociology (NIS) Theory

3.4.1. Early NIS Perspectives

NIS has its origins in the pioneering work of Selznick (1948; 1949; 1957) and it emerged in contrast to NIE (Moll *et al.* 2006). The recommendation, when approaching institutional theory, is to recognize that, in the emergence of the process, there is no single variable (economic factors as in NIE) but several variants (political and economic factors) that can influence organizational practices (Scott 1987). Unlike NIE, both NIS and OIE reject the assumption that individuals are rational utility maximizers and both accept the significance of power, culture and society in their analysis. Also, both reject the approach of methodological individualism (Abdul Khalid 2000) and the assumption of "abstract" and "optimization" (Burns 2000). In this regard, Powell and DiMaggio (1991:8) argue that this form of institutionalization as an NIS approach

"comprises a rejection of rational actor model, an interest in institutions as independent variables, a turn toward cognitive and cultural explanations, and an interest in properties of supra individual units of analysis that cannot be reduced to aggregations or direct consequences of individuals' attributes or motives".

The NIS approach examines the relationships between an organization and its environment, and emphasizes the importance of social and political factors in shaping organizational reality (DiMaggio and Powell 1991). The study of institutions in organizational analysis started with Selznick (1948; 1949; 1957), who studied the relationships between organizations and the

institutional environment, and with Parsons (1956a; 1956b), who affirmed how institutions function to integrate organizations with other organizations in society through universalistic rules, contracts and authority. Selznick (1957) emphasized that organizational structure as an adaptive vehicle emerged in response to the characteristics and obligations of participants as well as to influences and pressures from the external environment. Thus, institutionalization refers to this adaptive process, "in what is perhaps its most significant meaning, 'to institutionalize' is to infuse with value beyond the technical requirements of the task at hand" (1957:17).

Scott (1987) argued that Selznick's classification of organizations into two distinct types delineated them as technically devised instruments, as mechanical and disposable tools, and as ones that have become institutionalized, becoming valued, natural communities in order to maintain themselves and gain legitimacy. He also states that the institutional approach emphasizes the significance of history or the "natural history" of the development of organizational life that is adaptively changing over time. Thus, Selznick (1957) stressed the importance of using a holistic and/or contextual approach to explain the adaptation process (homogeneity) by specific organizations. As Perrow (1986:157-8) pointed out,

"For institutional analysis, the injunction is to analyze the whole organization. To see it as a whole is to do justice to its "organic" character. Specific processes are, of course, analyzed in detail, but it is the nesting of these processes into the whole that gives them meaning".

Furthermore, Selznick (1948) argued that formal rules and processes become institutionalized within an organization and identified informal processes through continual employment. Hence, external institutions influence organizations within broader society, such as institutions of industry, government and education (Selznick 1957). Thus, NIS concentrates on high or macro level analysis, usually at the society or societal sectors level (DiMaggio and Powell 1991). Accordingly, the main assumption of NIS is that intra-organizational structures and procedures, including MAPs, are mainly shaped by external forces rather than by cost-minimizing objectives. Thus, organizations that work in similar environmental settings are presumed to be subject to comparable demands towards what is generally considered appropriate behavior, including the choice and design of internal structures and procedures (Meyer and Rowan 1977; DiMaggio and Powell 1983; Meyer and Scott 1983; Moll *et al.* 2006).

Consequently, an organization conforms to societal rules in order to gain external legitimacy and increase its chance of survival, irrespective of whether new rules or procedures would make the organization more effective (Carpenter and Feroz 2001). Thus, being efficient is not the only way that organizations can survive. Legitimacy in the external environment, which is conferred by the state, the government, and by educational and other external bodies, is another means of ensuring survival (Carruthers 1995). Such congruence in organizational structures and processes, grounded in the 'pressures' of environmental expectations and beliefs, is said to have emerged through a 'process' of isomorphism (DiMaggio and Powell 1991). Therefore, legitimacy is the consistency of conduct and organizational rules with normative patterns set by wider society's expectations (Parsons 1940). Where organizational rules are congruent with societal rules, the organization is supposed to have a legitimate claim on society's resources (Scott 1995).

The extent of societal or cultural support for an organization identifies its organizational legitimacy in order to survive (Meyer and Scott 1983). The legitimacy and survival explain why specific organizational rules and procedures are reproduced or diffused across organizations operating in the same settings or similar environments (Scott 1992), societal sectors (Meyer and Scott 1983), or organizational fields (DiMaggio and Powell 1983). This insight has been developed by DiMaggio and Powell (1983)³¹, who suggest that this process of diffusion can generate pressures on organizations to become isomorphic with other organizations in their institutional setting. As a result, the level of NIS analysis focuses widely on the organizational field, such as economic, political and social, especially the impact of the broader organizational framework on the structure and strategy operating within the organization (Powell 1988). So, taken-for-granted assumptions and rules show and direct individual and organizational behaviors (Peter and Luckmann 1966) and the maintenance of institutional patterns relies on the support of the moral responses to the mainstream members of society (Parsons 1940). The institutions of rules and routines have emerged and been reinforced (e.g. by using power and politics factors) within the organization as they do not work separately. In addition, the institutionalized norms and values of the broader environment are considered in NIS. Hence, the NIS perspective describes the effect of these

³¹ They also stated:

"Examination of the diffusion of similar organizational strategies and structures should be a productive means for assessing the influence of elite interests. A consideration of isomorphic processes also leads us to a bifocal view of power and its application in modern politics. To the extent that organizational change is unplanned and goes on largely behind the backs of groups that wish to influence it" (1983:157).

broader institutions on the practices and structure of an organization (Greening and Gray 1994).

3.4.2. Recent NIS Perspectives

In the 1970s, a new approach to institutional analysis was established by Meyer and Rowan (1977) and Zucker (1977), who emphasized the role of culture and cognition in institutional analysis. From a macro perspective, Meyer and Rowan (1977) emphasized the role of transformation in rationalizing taken-for-granted rules, leading to isomorphism in the formal structures of organizations. Organizations had to conform to the requirements of external environments for legitimacy, meaning that parts of organizations had to be loosely coupled with their technical core. From a micro perspective, Zucker (1977) stressed the taken-for-granted nature of institutions and the role of cultural persistence as a measure of institutionalization.

Meyer and Rowan (1977), in their seminal paper, which came after a series of puzzling observations prepared in the 1970s by a group of researchers, studied the educational sector in the USA (*ibid.*). The key debate of NIS is that a number of organizations exist in highly institutionalized environments. In this logic, “environment” is not regarded simply as a source of task restrictions or a relational network (of suppliers, customers, and other) that makes demands for operational coordination and control of an organization; rather, it comprises the cultural rules and social norms that are reproduced in particular formal structures and procedures of the organization (*ibid.*). Hence, institutionalized organizations tend to adopt structures and procedures that are settled in their social and cultural environment (mimetic emphasis) in order to attain legitimacy and to secure the resources necessary for their survival (Meyer and Rowan 1977).

In addition, Meyer and Rowan (1977) clarify that the formal structure of an organization is all the procedures, rules and routines that explain how the organization's actions must be carried out in order to accomplish its goals, which is a reflection of the societal, institutionalized rules. In doing so, an organization usually coexists and is consistent with societal rules in order to gain external legitimacy and increase its chance of survival. Apart from that, new rules or practices do not merely give organizations the means to survive and gain legitimacy. They also provide another means for the organization to become more effective and efficient (Carruthers 1995). DiMaggio and Powell (1983) extended Meyer and Rowan's (1977) focus

on isomorphism from the societal level to the level of organizational fields, with their emphasis on coercive, normative and mimetic sources of isomorphism. For DiMaggio and Powell (1983), the effects of cognition are mainly seen through mimetic isomorphism - focusing on mindless behavior in response to cultural rationalization. Consequently, what they termed 'the new institutionalism' also became largely recognized with a rejection of rationality as an explanation for organizational structure, and an emphasis on legitimacy rather than efficiency as an explanation for the success and survival of organizations (Tolbert and Zucker 1983).

According to DiMaggio and Powell (1991:64-65), "organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products" are therefore considered "the totality of relevant actors". Accordingly, NIS explains institutions at the macro or outside levels. Institutions are defined at the macro level through "external rules, procedures, myths and/or norms" (Moll *et al.* 2006); they are organized, have established procedures, follow the rules of the game, and constitute a social order or pattern that has attained a certain state or property. Thus, institutionalization denotes the process of such attainment (Jepperson 1991) and is inter-organizational in locus (DiMaggio and Powell 1991). Like DiMaggio and Powell, Scott (1995; 2001; 2005; 2008) defined the fundamental components of external institutions at the regulative (coercive), the normative, and the cognitive-cultural (mimetic) level. He affirms that:

"Institutions consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior. Institutions are transported by various carriers - cultures, structures, and routines - and they operate at multiple levels of jurisdiction. In this conceptualization, institutions are multifaceted systems incorporating symbolic systems - cognitive constructions and normative rules - and regulative processes carried out through and shaping social behavior. Meaning systems, monitoring processes, and actions are interwoven. Although constructed and maintained by individual actors, institutions assume the guise of an impersonal and objective reality. Institutions ride on various conveyances and operate at multiple levels - from the world system to subunits of organizations" (Scott 1995:33-4).

Another approach to institutional analysis has been created by other researchers, who assumed that *institutional logics* define the content and meaning of institutions (Friedland and Alford 1991; Haveman and Rao 1997; Thornton and Ocasio 1999; Scott 2000). The notion of institutional logics was introduced by Alford and Friedland (1985) to describe the contradictory practices and beliefs inherent in the institutions of modern Western societies. They describe capitalism, state bureaucracy and political democracy as three contending

institutional orders which have different practices and beliefs that shape how individuals engage in political struggles. A separate, albeit related, notion of institutional logics was developed by Jackall (1988). In his ethnographic study of ethical conflicts in corporations, Jackall (1988:112) defines institutional logic as “the complicated, experientially constructed, and thereby contingent set of rules, premiums and sanctions that men and women in particular contexts create and recreate in such a way that their behavior and accompanying perspective are to some extent regularized and predictable. Put succinctly, an institutional logic is the way a particular social world works”.

Friedland and Alford (1991:232) further developed the notion in the context of exploring the interrelationships between individuals, organizations and society. They view “institutions as supra-organizational patterns of activity rooted in material practices and symbolic systems by which individuals and organizations produce and reproduce their material lives and render their experiences meaningful”. Jackall (1988), like Friedland and Alford (1985), views institutional logics as embodied in practices, sustained and reproduced by cultural assumptions and political struggles (Thornton and Ocasio 2008). But the emphasis, for Jackall (1988), is on the normative dimensions of institutions and the intra-institutional contradictions of contemporary forms of organization; in contrast, the focus for Friedland and Alford (1985) is on symbolic resources and the inter-institutional contradictions of the inter-institutional system (*ibid.*). Developing ideas by both Jackall (1988) and Friedland and Alford (1991), Thornton and Ocasio (1999:804) defined institutional logics as “the socially constructed, historical pattern of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality”.

According to this definition, institutional logics offer a relation between individual agency and cognition and socially constructed institutional practices and rule structures. While Friedland and Alford’s approach represents both the structural and symbolic, and Jackall’s includes both the structural and normative, Thornton and Ocasio’s (1999) approach to institutional logics integrates the structural, normative, and symbolic as three necessary and complementary dimensions of institutions, rather than separable structural (coercive), normative, and symbolic (cognitive) carriers, as suggested by alternative approaches (e.g., DiMaggio and Powell 1991; Scott 1995). However, institutional logics emphasize how historical and cultural change is important in understanding the patterns of power and control

in organizations (Fligstein 1987; Brint and Karabel 1991). This notion dates back to Weber (1922) and his classification of historically situated ideal types: control by individual charisma, by tradition, and by legal bureaucracy (Thornton and Ocasio 1999). Institutional logics thus encompass both the material and symbolic - they present the formal and informal rules of action, interaction and interpretation that guide and constrain decision-makers in achieving the organization's actions and in obtaining social status, credits, penalties and rewards in the process (Ocasio 1997). These rules constitute a set of assumptions and values, usually implicit, about how to interpret organizational reality, what constitutes appropriate behavior, and how to succeed (Jackall 1988; March and Olsen 1989).

Although the institutional logics approach shares with Meyer and Rowan (1977), Zucker (1977), DiMaggio and Powell (1983, 1991) and Scott (1995) a concern with how cultural rules and cognitive structures shape organizational structures, it differs from them in its center of attention. The focus is no longer on isomorphism, be it in the world system, society, or organizational fields, but on the effects of separated institutional logics on individuals and organizations in a larger variety of contexts, including markets, industries, and populations of organizational forms. Hence institutional logics shape rational, mindful behavior, and individual and organizational actors have some hand in shaping and changing institutional logics (Thornton 2004).

In doing so, institutional logics still focus on 'rationality' and 'ideal forms' and depend on mathematical models that are grounded in neoclassical theory. In addition, these studies emphasize institutional change as the replacement of one dominant logic by another and assume that organizational practices are guided by a single logic; in fact, organizational practices that operate in multiple institutional spheres often have plural logics. This means that these studies have viewed the isomorphism from a single viewpoint (Dunn and Jones 2010). Furthermore, some scholars have studied the institutional change at societal level, such as Meyer and Rowan (1977), and others have focused on the organizational field level, such as DiMaggio and Powell (1983). More recently, Dillard *et al.* (2004) have developed a new institutional framework which integrates multiple levels of institutional change. This framework has a more comprehensive view of accounting and reveals the multiple logics in the role of accounting in the institutionalization process. By providing a link between institutions and action, this alternative model of institutional logics provides a bridge between the societal-level, macro perspectives of Meyer and Rowan (1977), DiMaggio and Powell

(1983) and Scott (1995; 2001) at organizational field level, and Zucker's more micro-process approach. Situated levels of analysis are linked with beliefs and practices in wider institutional environments in ways that address the study of isomorphism and diffusion studies (Hasselbladh and Kallinikos 2000; Thornton and Ocasio 2008).

Dillard *et al.*'s (2004) framework confirms criticisms of early and recent NIS research (Hopper and Major 2007; Cruz *et al.* 2009). Relatively little theoretical consideration has been given either to the processes through which institutional practices are created, diffused and changed or to the socio-economic and political context that constitutes the framework for these organizational processes (Dillard *et al.* 2004). By looking at organizations and practices solely as outcomes and examining them at a given point of time, the emphasis is on the constraining and limiting nature of institutionalized beliefs and values, as discussed earlier in institutional logics, and not on the dynamics associated with change or the role of human agency (*ibid.*, and see also, Slack and Hinings 1994). Accordingly, it is important at the organizational level that the ideas of OIE approach are integrated into this framework (Dillard *et al.* 2004).

3.4.3. Dillard *et al.*'s (2004) Framework

The main aim of Dillard *et al.*'s (2004) framework is to elucidate the institutional dynamics in the processes of organizational change, in particular to explain changes in accounting practices and the influence of these practices on institutional and organizational change in multilevel analysis. The framework embodies continual (recursive), dynamic change and the significant influence of historical, social and political factors in the institutionalization of accounting practices (Dillard *et al.* 2004; Hopper and Major 2007). In this vein, Scott (2004:12) affirms that the focus of NIS: "[...] began to shift from discussions of institutional "effects" to institutional "processes"; and theorists began to craft recursive models, recognizing "bottom-up" modes of influence, to supplement or replace prevailing top-down models" (see also, Scott 1995; 2001). Thus, institutional theory mirrors trends generally present in theorizing about social structure and action from the classical to contemporary theorists (Alexander 1983). Interactive and recursive models have increasingly replaced determinist arguments (Scott 2004). Therefore, the work of Giddens (1976; 1979; 1984) has been particularly helpful to recent social scientists in developing a more balanced framework of the relation between external institutions and internal processes (*ibid.*).

Indeed, Dillard *et al.*'s (2004) framework combines OIE research on internal institutionalization processes with recent NIS perspectives on extra-organizational pressures. Both OIE and NIS perspectives are integrated with the ST perspectives (Giddens 1976; 1979; 1984). Dillard *et al.*'s framework is also supported by the notion of 'axes of tension' proposed by Weber (1958; 1961; 1968) and insights from ST, in particular three structuration assumptions: 'signification', 'legitimation', and 'domination' (Giddens 1976; 1979; 1984). Hence this framework has its roots in the ST dynamics that suppose that action is changed but constrained by structure (institutions) to develop a recursive institutionalization model that gives priority to processes rather than outcomes (Hopper and Major 2007). Dillard *et al.*'s (2004) framework extends institutional theory by providing a comprehensive conceptual basis for investigating the practices of accounting in organizations. The framework explicitly recognizes the political nature of institutional change and provides a basis for a more complete understanding of the dynamics involved in such a change. This framework also sketches a dynamic social context through which the processes of institutionalization, transposition and de-institutionalization take place and through which radical as well as incremental change can be addressed. As a result, changes in accounting practices and the influence of these practices on institutional and organizational change can be more clearly understood (Dillard *et al.* 2004).

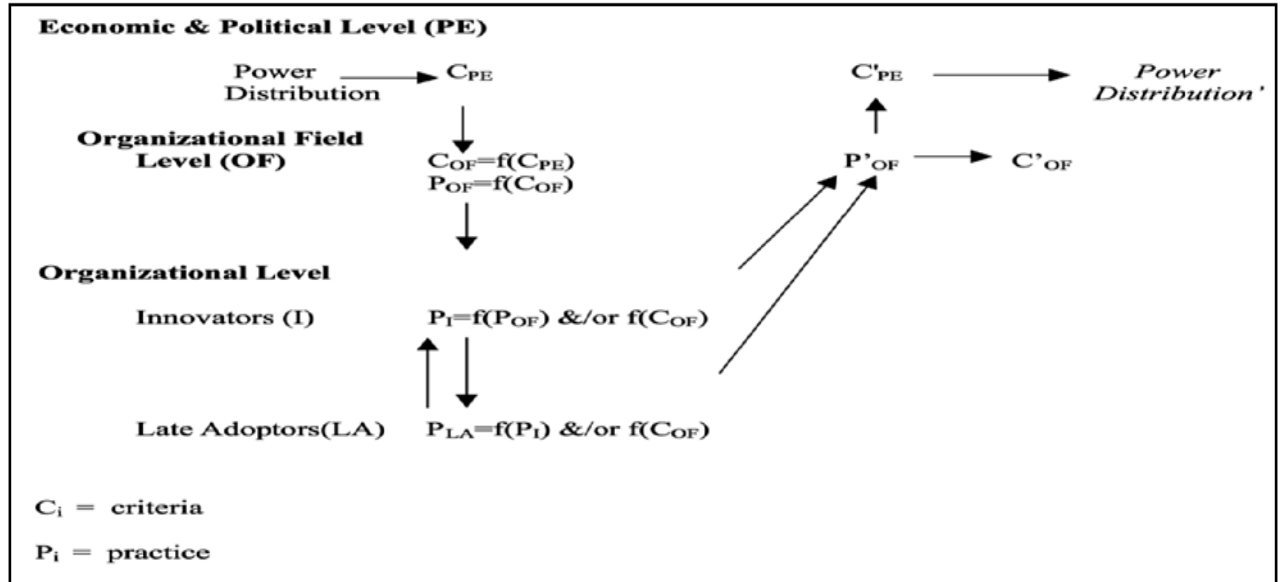
3.4.3.1. The Recursive Institutionalization Process

Dillard *et al.* (2004) develop a multilevel framework of MA dynamics associated with the institutionalization process. They suppose that this process of institutionalization moves in a recursively cascading manner, as implied by DiMaggio and Powell (1983) and Clegg (1987; 1988), through three levels of socio-historical relationships, including the economic and political level or societal level (PE), the organizational field level (OF), and the organizational level (see Figure 3-9), and involves actors, power and interests. The upper level of the framework represents the overarching societal level of political, economic, and social systems, within which norms and values have been established and disseminated to members of that society. The second level consists of organizational fields, including socio-economic configurations such as industry groups, government, professional bodies and consultants. The lower level is inhabited by individual organizations (Dillard *et al.* 2004). Dillard *et al.* (2004:513) describe this process as follows:

"The recursive nature of the institutionalization process indicates that institutions and actions are reciprocally related and that institutional features are motivated by the socio-historical context reflected in rules predicated on norms and values and in the prevailing symbolic and sense-making structures.

Resources are allocated based on these accepted rules, which in turn reinforce the extant structures. These structures then reinforce the present version of the rules and the current resource allocations and so on. As a result of this iterative process, generally, there is a significant degree of structural stability enabling and constraining action. This process is viewed as both value-driven, in that the institutionalized, taken-for-granted shared values and beliefs infuse all actions and practices, and history dependent on the current actions is grounded in extant values, beliefs and practices”.

Figure (3-9) Dillard *et al.* (2004) Framework



(Source: Dillard *et al.*, 2004: 512)

The recursive institutionalization process (as exhibited in Figure 3-9) can generally be conceptualized as a process contextualized by hierarchically linking the political and economic level (PE) with the organizational field (OF) into the organizational level. The societal level establishes the most generally accepted and taken-for-granted norms and practices, where political and economic systems (PE) employ symbolic sense-making criteria (C_{PE}) in order to articulate and introduce legitimate norms and practices, such as accounting standards, laws and regulations (Dillard *et al.* 2004). At the same time, these norms and practices tend to be largely influenced by powerful coalitions (power distribution) and embody the macro context for resource allocation³²(*ibid.*, and see also, Clegg 1989). It should be observed that the components (e.g. laws and regulations) of the political and economic systems are enacted by actors (such as legislators and regulators), and represent the characteristics of the prevailing systems of social integration (*ibid.*).

³² For instance, in PE dynamics the current security laws and accounting standards support the centrality of private property and investor dominance with the published financial statements providing tangible representations (Dillard *et al.* 2004).

The second level consists of the (OF) level where the social, economic and political parameters are translated into field-specific expectations (Dillard *et al.* 2004). The social, economic and political factors embedded in the societal level (PE) enter the organizational field through the organizational field criteria (COF), which are a function of the societal level criteria (CPE). The (COF) provide the legitimacy for the actions at the organizational field (OF) level on the one hand, while CPE support the legitimacy for the existence of (COF) on the other hand. Legitimated practices within the organizational field (POF) are becoming a function of the organizational field criteria (COF) and provide the legitimating and regulative base for action at the organizational level³³, as seen at the bottom of Figure (3-9) above (*ibid.*).

In this regard, organizations seek to appear legitimate to their broader environment and stakeholders to ensure the resources necessary for their survival. To secure this legitimacy, organizations must conform to what is expected of them (DiMaggio and Powell 1983). At the same time, institutions determine rules, procedures and structures for organizations as stipulations for granting *legitimacy and support* (resources) (Meyer and Rowan 1977). These institutions have usually consisted of governments, professional bodies and other organizations in the same field (Tolbert and Zucker 1983), in addition to interest groups, universities and public opinion (DiMaggio and Powell 1983). Organizations within the environment adopt similar structures and systems even though there is no technical reason to do so. When this occurs, organizational homogeneity becomes clear in the field. This homogeneity process is also called *isomorphism*. NIS approach explains why isomorphism is present among organizations in structures and systems within the environment (Scapens 2006). NIS is concerned with many aspects of extra-organizational factors (e.g. political, environmental uncertainty, professionalization, and institutional legitimacy). Isomorphism thus is produced from powerful forces (pressures or external powers) as discussed at political and economic level that lead organizations to change their structures, goals, systems or practices (Dillard *et al.* 2004).

³³ With the organizational field (OF), legislators, regulators and standard-setting groups develop regulations or accounting standards for an industry (e.g. the banking industry) within the parameters set by the political and economic context. Industry analysts and trade associations identify expected practices based on empirical data and observations of high-performing firms within the sector (*ibid.*).

At the organizational level, individual organizations can be innovators (I), who develop new organizational practices (PI) within the (POF) and (COF) and within the boundaries of the OF practices, or late adopters (LA) who mimic (adopt) innovators' practices. (PLA) can gain legitimacy from the success of both (PI) and (OF) practices and criteria (Dillard *et al.* 2004; Hopper and Major 2007). Thus, late adopter organizations can integrate (PI) into their actual practices or working processes, or they can use (PI) but decouple them or loosely couple them from actual (PLA) used in managing the organization (Dillard *et al.* 2004). On the one hand, if decoupling does take place, the institutional practice is identical, but the realization of the activity is different from non-decoupling (*ibid.*). By implementing the practice, it is reinforced, but the reinforcement is not as strong as it might be in another way and is likely to be dispersed (loosely coupling) more rapidly (*ibid.*). On the other hand, in the case of loose coupling, the innovator practices can be used in a ceremonial way to give legitimacy to late adopter organizations (Wanderley *et al.* 2011). Accordingly, Dillard *et al.* (2004:514) declare that:

"The dualistic nature and the recursive aspect of the institutionalization process essentially involves inverting the cascade and elaborating the process as the actions taken by knowledgeable, reflexive agents within the organizations rise up through the three levels and changes occur in the established order at the various levels to a greater or lesser extent. As they move laterally and upwards, the new innovative practices may modify the set of legitimate practices (POF) and criteria (COF) in the organization field by reinforcing, revising or eliminating extant practices. Changes at the organizational field level in the set of legitimate and accepted practices (P'OF) and criteria (C'OF) could contribute to a new contextual environment. These changes may largely support the earlier accepted practices and criteria [later adopters] with some small evolutionary change, or they may involve larger or even on occasion revolutionary change".

Dillard *et al.*'s (2004) framework thus confirms that the implementation of new practices by late adopters will enhance the process of change at the organizational field level by encouraging more late adapters. The new organizational field practices (P'OF) and criteria (C'OF) will also affect the political and economic criteria (C'PE), either reinforcing the norms and practices exercised by the powerful groups, modifying them, or removing them and thus influencing the resource allocation process within a society and the recognized social order (Dillard *et al.* 2004). The institutionalization process permits continuity (stability) whereas the conflicting criteria induce forces for change. Finally, the process of institutionalization is thus inverted again and flows downwards through the three levels as described above, becoming acceptable and legitimate practices for organizations and unfolding over time and space. As a result, "recursivity is the key to understand change in the institutionalization process since taken-for-granted norms, values, beliefs and assumptions

may be continually revised at all three levels of the model". The following sections explain these three levels of institutionalization process.

3.4.3.2. The Political and Economic Level

MA literature emphasized that political and economic factors influence MAC. The dominant socio-economic and political context faced by most organizations in societies is the market and state system. The primary aspect or legitimating attribute within this system is economic efficiency (Dillard *et al.* 2004). Any institutional aspect characterized as organizationally relevant is eventually motivated and legitimated by the criteria of economic efficiency. It follows "a particular form of rationality and so organizations operating within that cultural context will garner more legitimacy if they can emulate or symbolically reproduce that rationality" (Meyer and Rowan 1977:315). Thus, institutionalized and rationalized elements are included into the formal organizational structure because they maintain manifestations of this rationality regardless of whether they actually facilitate the desired outcome (Dillard *et al.* 2004).

The concern of social theorists is to theorize contemporary social life and its processes at the societal level (Cruz *et al.* 2011), although they are seldom engaged in empirical research and do not focus on the work of individual and collective actors as they attempt to transform processes and achieve certain outcomes (*ibid.*). Thus, institutional theory is "a way of thinking about formal organization structures and the nature of the historically grounded social processes through which these structures develop" (Dillard *et al.* 2004:508). The principal factor underlying the development of institutional theory in the organization change literature is its wide scope of applicability (*ibid.*). At first, the sociologically-based institutional theorists supposed that institutional ideas were only applicable to institutionalized organizations. Nowadays, it has been declared that institutional theory can be employed to analyze all types of organizations because they are institutionalized organizations, albeit to varying degrees (Scott 1995). Explicitly, all organizations are subject to regulative processes and operate under local and general governance structures. They are socially constituted and are the subject of institutional processes that "define what forms they can assume and how they may operate legitimately" (*ibid.*: 136).

Parsons (1960) pointed out that, since organizations exist in a super-ordinate social system and employ resources which might be otherwise allocated, the deployment of these resources

must be accepted as legitimate by the larger social system. Accordingly, organizations are legitimate to the level that their activities are congruent with the goals of the super-ordinate system (Dowling and Pfeffer 1975). Berger and Luckmann (1967) allude to social and political interests in their debate on institutional change and explanation. Thus, Zucker (1977) and Meyer and Rowan (1977) primarily drew on the work of Berger and Luckmann (1967) to discuss whether institutions are socially constructed templates for action, produced and reproduced through ongoing interactions. Thus, early social theorists were satisfied to emphasize or assume the significance of culturally-based rule models but did little more than demonstrate such effects. More recently, a growing number of researchers have attempted to activate the concept of legitimacy by moving away from vague, general affirmations about organizations being legitimated by societal values or being consistent with socially constructed models (Ruef and Scott 1998).

Consequently, March and Olsen (1984) argue that human actions, social contexts, and institutions operate upon each other in complicated ways, and these complex, interactive processes of action and the configuration of meaning are essential to political life. Institutions seem to be neither neutral reflections of exogenous environmental forces nor neutral arenas for the performances of individuals driven by exogenous preferences and expectations. As a result, contemporary political assumptions tend to portray political institutions (such as the legislature, policy-making, the legal system, and the state, as well as economic institutions) as a reflection of society, and political phenomena as the cumulative consequences of individual behavior and action. Hence “Social, political, and economic institutions have become larger, considerably more complex and resourceful, and *prima facie* more important to collective life. Most of the major actors in modern economic and political systems are formal organizations, and the institutions of law and bureaucracy occupy a dominant role in contemporary life” (March and Olsen 1984:734).

Accordingly, the behavior of organizations is the outcome of the interlocking choices by individuals and subunits, each acting in terms of expectations and preferences manifested at the organizational field (Niskanen 1971). In the same way, the behavior of a market or economy is the outcome of the interlocking choices by individuals and organizations, each acting in terms of a set of expectations and preferences manifested at societal level (Stigler 1952). It is not necessary for the micro processes to involve choice, and collective behavior in a group can be viewed as the outcome of the interlocking of reproduction process occurring at

the organizational level (Lave and March 1975). In other words, the collective behavior of an industry (at organizational field level) can be viewed as the outcome of the interlocking of standard operating procedures and accounting rules followed at the level of the individual organization (Nelson and Winter 1982). As a result, the actions of individual human beings are deemed to determine the flow of events in a larger social system. Hence individual action facilitates each adaptation to an environment through survival, mutation, and reproduction. Selection and changes in population distributions within the environment are supposed to be understandable as outcomes of the actions of individual actors in combination with the actions of others and the potential capacity of the environment (March and Olsen 1984).

As discussed above, political and economic phenomena are viewed as outcomes of three primary factors: the distribution of preferences (interests) among political actors, the distribution of resources (power coalition), and the constraints imposed by the rules of the game (constitutions). Each of these is treated as exogenous to the political and economic system. More explicitly, preferences of power coalition “are developed within a society and transmitted through socialization, resources are distributed among political actors by some broad social processes, and rules of the game are either stable or change by a revolutionary intervention exogenous to ordinary political activities” (March and Olsen 1984:739). Thus, political institutions influence the distribution of resources, which in turn affects the power of political actors, and hence affects political institutions. Wealth, social position, power status, knowledge of choices, and awareness are not easily described as exogenous to the political process and political institutions (*ibid.*). In this vein, sociologists use the following definition³⁴ of institutions in terms of a wide range of constructs associated with various levels of social organization:

“An institution is an established order comprising rule-bounded and standardized social practices. Institutionalization is the process whereby the practices expected in various social settings are developed and learned. Institutional theory is primarily concerned with an organization’s interaction with the institutional environment, the effects of social expectations on the organization, and the incorporation of these expectations as reflected in organizational practices and characteristics (Martinez 1999). Organizational activities are motivated from the imperative of legitimacy-seeking behavior, which in turn is influenced by socially constructed norms. For organizations to survive, they must interact with their environment in ways perceived as acceptable to their various constituents in that environment. This presumes some collective understanding of what constitutes appropriate behavior” (Dillard *et al.* 2004:508).

Dillard *et al.*’s (2004) framework integrates Weber’s idea of ‘axes of power’ and ST through the core dimensions of social systems to provide a theoretical link at the three levels of the

³⁴ The definition is from The Harper and Collins Dictionary of Sociology.

historical, socio-economic and political environment through which the institutionalization process occurs. Hence, at the societal level, the three dimensions are represented as: (1) legitimating grounds for norms and values as well as their codification in laws and regulations; (2) representational schema associated with the political and economic systems; and (3) the domination perspective which refers to the institutions that control and allocate resources (Dillard *et al.* 2004). As a result, norms and values that are occasionally codified in the laws and regulations are grounded in the formal rationalized structure, private property rights, free trade policies, facilitation of commercial activity and reporting regulations favoring investors/owners. In addition, laws and regulations are informed by discursively formulated, subjectively rational society norms and values (*ibid.*).

Thus, the overarching societal level of political and economic systems, within which norms and values are created and disseminated to members of that society, provides the overarching parameters and criteria for the organizational field and, hence, organizational actions. These parameters are reflected in organizational field criteria and practices that are the outcome of knowledgeable and reflexive actions by human agents over time and through space, which are in the same way reflected in organizational practices (Dillard *et al.* 2004). As a result, organizational change and structure are influenced by the inter-organizational context (organizational field) in which organizations are institutionally entrenched. These institutional environments are “characterized by the elaboration of rules and requirements to which individual organizations must conform if they are to receive support and legitimacy [...]” (Scott and Meyer 1983:149). Hence, a highly institutionalized environment is expected to exert considerable weight on organizations given “the ability of institutions to influence organizations to adopt practices consistent with institutional practices” (Greening and Gray 1994:471).

3.4.3.3. The Organizational Field Level

The conception of organizational field is central to institutional theory (Greenwood *et al.* 2002). It represents an intermediate level between organization and society and is instrumental in processes by which socially constructed expectations and practices become disseminated and reproduced (Scott 1994; 1995). Within the organizational field, the societal norms and values are translated into field-specific expectations. The societal parameters enter the organizational field through the organizational field criteria, which are a function of the social, economic and political-level criteria, providing a wide array of criteria for evaluating

legitimate action at the organizational field level. Accepted and workable practices are considered legitimate at the organizational field level; they are a function of organizational field criteria, and provide the legitimating and regulative base for actions at the organizational level (Dillard *et al.* 2004; Hopper and Major 2007; Cruz *et al.* 2009). Thus, Dillard *et al.*'s (2004) framework explicitly recognizes the organizational field level as an interactive part of a larger social system that must be considered when investigating the establishment, embedding and de-institutionalization of criteria and practices.

The socio-economic and political conditions provide the context and platform for organizational fields. At the organizational field level, three dimensions represent organizational change: (1) legitimating grounds for industrial rules, norms and practices; (2) representational schema that represent the rules and practices related to structural properties appearing from organizational actions as well as political and economic criteria translated into the industry context; and (3) the domination structure which refers to the institutions within the organizational field that control and allocate resources (Dillard *et al.* 2004). Thus, the signification, legitimation and domination components of the societal level supply the context through which the organizational field is constructed (*ibid.*).

DiMaggio and Powell (1983:148) define organizational field as sets of organizations that, in the aggregate, "constitute an area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products". The importance of this unit of analysis is the focus upon "sets" or "communities" of organizations that actually interact with one another or are influenced by one another in a meaningful way (*ibid.*, and; Greenwood *et al.* 2002). Scott (1994) inserts the idea that patterns of interaction between organizational communities have become defined by shared systems of meaning. These meaning systems form the boundaries of each community of organizations, defining its membership, suitable ways of behaving, and the proper relationships between organizational communities (Lawrence 1999). Organizational fields can only exist to the extent that they are institutionally identified. The process of institutional definition, or 'structuration', comprises four aspects: an increase in the manner of interaction between organizations in the field; the appearance of sharply defined inter-organizational structures of domination and patterns of coalition; an increase in the information load with which organizations in a field must contend; and the expansion of a mutual awareness among

members in a set of organizations that they are involved in a common activity (DiMaggio 1982; DiMaggio and Powell 1983).

Accordingly, formal structures and practices of several organizations in business society radically reproduce the myths of their institutional environments rather than the demands of their work activities (Meyer and Rowan 1977). However, DiMaggio and Powell (1983:147) assert that “the engine of rationalization and bureaucratization has moved from the competitive marketplace to the state and the professions. Once a set of organizations emerges as a field, a paradox happens: rational actors make their organizations increasingly similar as they try to change them”. The configuration of centralized states and the diffusion of societies by political centres also contribute to the rise and spread of formal (ceremonial rules) organization (Meyer and Rowan 1977). In this regard, Meyer and Rowan (1977:341) argue that:

“Institutionalized products, services, techniques, policies, and programs function as powerful myths, and many organizations adopt them ceremonially. But conformity to institutionalized rules often conflicts sharply with efficiency criteria and, conversely, to coordinate and control activity in order to promote efficiency undermines an organization's ceremonial conformity and sacrifices its support and legitimacy. To maintain ceremonial conformity, organizations that reflect institutional rules tend to buffer their formal structures from the uncertainties of technical activities by becoming loosely coupled, building gaps between their formal structures and actual work activities”.

Much of contemporary organizational theory supposes a dissimilar and heterogeneous world of organizations and seeks to explain variation and deviation among organizations in structure and behavior (e.g., Woodward *et al.* 1965; Child and Kieser 1981). Hannan and Freeman (1977:936) begin their major theoretical paper with the general question, “Why are there so many kinds of organizations?”. However, DiMaggio and Powell (1983:148) wonder “why there is such startling homogeneity of organizational forms and practices.” Studies of organizational change should be geared towards explaining homogeneity rather than variation in practices. They justify that, although in the initial stages of the life cycle of organizational forms and practices, organizational fields show considerable diversity in approach and form. Once the field becomes well established, however, there is an inevitable push towards homogenization. In the same way, much less attention has been paid to conceptualizing how the effects of isomorphism are brought about. An inexorable corollary is that little is known of how and why institutionalized practices within a field emerge or change (Greenwood *et al.* 2002).

This study distinguishes between two main types of isomorphism: competitive and institutional. Meyer (1979) and Fennell (1980) have also discriminated between two kinds of isomorphism: competitive and institutional change. In the same way, Tolbert and Zucker (1983) clarify that there are two sources of organizational change: internal and institutional change. Internal change has arisen from the need to tackle technical (competitive) problems (e.g. coordination and control) or as a result of power and politics, leadership and the socialization to specific organizational roles. Institutional change has appeared as a result of the influence of the wider institutional environment. Accordingly, some organizations adopt the path of change due to their technical needs, as adopters of institutional change look beyond legitimacy goals. Hence, once practices are adopted by organizations within the organizational environment, processes become institutionalized and are viewed as a legitimate approach to conduct organizational business. The change processes are adopted by other organizations without considering their real effectiveness. Rather, they adopt these processes in their views in order to have accepted ways of doing things. Fennell (1980:487) affirms that they are adopted “As legitimation mechanisms which socially, rather than economically, demonstrate the fitness of an organization. Organizational forms survive, then, through the stability provided by social legitimation or institutionalized myths”.

However, most researchers have only been dealing with competitive isomorphism by assuming a systemic rationality that accentuates market competition, niche change, and fitness measures (e.g., Hannan and Freeman 1977). Such a view is most pertinent for those fields in which free and open competition exists. It is helpful to explain components of the process of bureaucratization that are grounded in neoclassical theory, and may be relevant only to early adopters of innovation (DiMaggio and Powell 1983). However, it does not give a fully appropriate picture of the contemporary environment of organizations or analyzers. For this rationale, DiMaggio and Powell (1983) assert that organizational change must be explained by an institutional view of isomorphism of the sort launched by Kanter (1972), who described the forces pressuring communities to be consistent with the outside world as follows:

“Isomorphism owing to the pressure for favourable public relations may be similarly detrimental to communal goals and commitment mechanisms.[...] Isomorphism also obviates the need for resocialization, since the community already parallels the outside, but in so doing it eliminates the resocialization practices that have value as mortification and surrender mechanisms. Isomorphism may aid environmental and exchange goals, therefore, it may also interfere with the maintenance of communal systems, whose purpose in existing may be their expression of unique and different values” (P: 152-4).

In the same way, some sociologists affirm that competitive or technical isomorphism is more applicable for profit organizations, whereas institutional isomorphism is more appropriate for processes of isomorphism in non-profit organizations (e.g., Fennell and Alexander 1987; Carruthers 1995). Aldrich (1979) argues that the key factors that organizations must consider are other organizations. Organizations struggle not just for purposes of resources and customers, but also for purposes of political power and institutional legitimacy, and for social as well as economic fitness. Institutional isomorphism can occur when non-optimal forms are chosen out of a population of organizations or because organizational decision-makers learn appropriate responses and change their behaviors accordingly (Hannan and Freeman 1977). Consequently, the conception of institutional isomorphism is a useful tool for understanding the organizational homogeneity and legitimacy that permeate much contemporary organizational life (DiMaggio and Powell 1983).

Institutional isomorphism can usually emerge out of competitive forces (Tuttle and Dillard 2007). The institutional approach aims to elucidate why some organizations in a particular field appear similar (Scapens 2006). Thus, it provides a very practical approach to recognizing the way in which organizations tend to conform to what they perceive as the expectations of their wider environment (DiMaggio and Powell 1983; Scapens 2006). Meyer and Rowan (1977) argue that organizations are structured by phenomena in their environments and tend to become isomorphic with them. Therefore, MASs usually emerge in response to isomorphism to institutional environment (Meyer and Scott 1991). They also argue that:

“[...] Internal accounting procedures evolve in response to, and under the influence of, societal expectations - their external appropriateness reinforced by accounting bodies, government and the business media whose influence filters down to intra organisation processes via imposed rules and expectations. [...] Such mechanisms provide the "isomorphism" between environmental pressures and organisation-level action and thought and are as much a political (i. e., power) issue as a legitimization issue, where the formal structures within an organisation move in line with rules established externally” (P:78).

Institutional isomorphism is the concept that best reflects the process of homogenization (DiMaggio and Powell 1991). For DiMaggio and Powell (1983:149), “isomorphism is a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions”. Unlike competitive isomorphism, institutional isomorphism has developed to emphasize social and political pressures as drivers of change. DiMaggio and Powell (1983) recognize three mechanisms through which institutional isomorphic change occurs, each with its own antecedents: *coercive*, *mimetic* and *normative* isomorphism. More recently and along the same lines as DiMaggio and Powell (1983), Scott

(1995; 2001) identifies that institutional isomorphism comprises three “pillars”: *regulative, cultural-cognitive and normative* structures. The following subsections explain these dimensions of institutional isomorphism:

3.4.3.3.1. Coercive (Regulative) Isomorphism

Coercive change usually stems from political influences and the problem of legitimacy (DiMaggio and Powell 1983). The regulative pillar comprises rule-based frameworks ranging from informal customs to formal, coercive systems. Coercive isomorphism happens when powerful bodies in an organization's domain practice authority or power (Scott 1987; 2001). In the same way, DiMaggio and Powell (1983) affirm that coercive isomorphism happens as the outcome of formal and informal pressures exercised on an organization by other organizations, upon which the organization depends, and through cultural expectations of the society in which they are operate. They have also argued that “Such pressures may be felt as force, as persuasion, or as invitations to join in collusion. In some circumstances, organizational change is a direct response to government mandate” (1983:150).

Hence regulative institutions, especially the state, impose laws and systems to promote convergence within the governmental field (Hopper and Major 2007). For instance, as in this study, regulators promoted, diffused and maintained budgeting systems. Governmental organizations use budget cycle and performance measures in order to meet government policies and institutional legitimacy. They also adopt similar organizational structures and systems in order to be consistent with other organizational standard patterns set by the wider society's expectations (DiMaggio and Powell 1983). In this way, subsidiaries must adopt accounting practices, performance evaluations and budgetary plans that are consistent with the policies of the central government (Coser *et al.* 1982; DiMaggio and Powell 1983). The fact that these changes may be mostly ceremonial does not mean that they are illogical (DiMaggio and Powell 1983); but it is also important to success organizational change. Thus, the legitimacy from the external environment that comes from the state, the government and external bodies, is another means of ensuring survival (Carruthers 1995). Accordingly, MAC underlying coercive pressures results from both authority (direct imposition) and power, which are imposed by the government on the public organizations.

3.4.3.3.2. *Mimetic (Cultural-Cognitive) Isomorphism*

Mimetic change results from standard responses to environmental uncertainty (DiMaggio and Powell 1983). Mimetic isomorphism is thus driven by imitation and uncertainty (Hopper and Major 2007). Tuttle and Dillard (2007:9) state that “the seeds of mimetic isomorphism are planted as a field emerges in its formative phase or during a reformulation phase brought about by the introduction of a major innovation”. Organizations adopt innovative systems with widespread cultural support and copy successful organizations to prevent their activities being questioned, particularly when uncertainties abound (Fligstein 1985; Covaleski and Dirsmith 1988a; Covaleski and Dirsmith 1988b). Hence organizations tend to model themselves on similar organizations in their field that they perceive to be more legitimate or successful (DiMaggio and Powell 1983). DiMaggio and Powell thus affirm that:

“Uncertainty is also a powerful force that encourages imitation. When organizational technologies are poorly understood, when goals are ambiguous, or when the environment creates symbolic uncertainty, organizations may model themselves on other organizations” (1983:151).

Modelling is another form of mimetic change, and arises as a response to uncertainty. The modeled organization may be unconscious of the modelling but it usually serves the borrowing organization as a suitable source of practices. Models may be diffused unintentionally, indirectly through employee shift or turnover, and explicitly by organizations, for instance consulting organizations or industry trade associations and international organizations (DiMaggio and Powell 1983). Thus, organizations tend to model themselves on similar organizations in their field that they perceive to be more legitimate or successful. Although considerable diversity of much homogeneity appears in organizational structures and systems, there is relatively little variation between them (*ibid.*). In this case, new organizations are modeled upon old ones within the economy, and managers enthusiastically seek models upon which to build (Kimberly 1980). Organizations thus adopt "innovations" to enhance their legitimacy, to reveal they are at least attempting to develop working conditions (DiMaggio and Powell 1991; Abernethy and Chua 1996).

The cultural cognitive (mimetic) pillar locates on shared conceptions of social reality that shape widespread beliefs and logics of action. The related behavior is mimetic: taken-for-granted understandings, often unconscious, provide structure, meaning, and predictability to human life (Scott 1995; 2001; Hopper and Major 2007). The benefits of mimetic behavior in the economy of human action are important when an organization faces a problem with ambiguous reasons or uncertain solutions (Cyert and March 1963). Alchian (1950) points out

that many factors³⁵ cause this motivation to imitate patterns of action observable in past successes. Uncertainty conditions may also encourage powerful forces in the organizations to mimic the actions of others in order to maintain legitimacy. Collier (2001:9) explains that cultural cognitive institutions are "a complex amalgam of overlapping and often ambiguous politico-legal requirements, economic constraints and socio-cultural obligations. Implicit in this complexity and ambiguity are the shifting relations of power that provide the context for organizational action". As a result, MAC may occur as a result of mimetic or modelling of MASs used by other organizations within the environment under ambiguity and uncertainty conditions.

3.4.3.3.3. Normative Isomorphism

Normative isomorphism is usually associated with professionalization (DiMaggio and Powell 1983). It occurs as a result of the impact of university specialists and professional bodies on organizational systems and practices in looking beyond professionalization. Hence, professionalization is the primary source of normative change (*ibid.*). Professionalization is defined as the collective efforts of performers of an activity to define the conditions and techniques of their work, to control 'the production of producers' and to build a knowledge base and legitimation for their occupational autonomy (Larson 1977:49-52). He also stated that the professional project is rarely realized with complete success. Professionals must negotiate and cooperate with non-professional clients, regulators or bosses to achieve success in the system, especially in large organizations. Most recently, more success has been achieved by organizational professionals than by traditional ones.

Professions are similar to coercive and mimetic change can be subjected to pressures on organizations. On the one hand, various types of professionals within an organization can differ from one another, but strongly resemble their professional counterparts in other organizations (DiMaggio and Powell 1983; 1991). On the other hand, professional power is as much assigned by the state as it is generated by the activities of the professions (*ibid.*). Therefore, two facets of professionalization can be viewed as significant sources of normative isomorphism. The first comes from formal education and legitimacy in knowledge foundation generated by *university specialists*; the second results from the progress and growth of

³⁵ Among these factors are: (1) the absence of an identifiable criterion for decision-making, (2) the variability of the environment, (3) the multiplicity of factors that call for attention and choice, (4) *the uncertainty* attaching to all these factors and outcomes, (5) the awareness that superiority relative to one's competitors is crucial, and (6) the non-availability of a trial-and-error process converging to an optimum position (Alchian 1950).

professional networks that contribute to diffuse new models rapidly appearing between organizations. Hence, universities and professional training institutes are considered essential axes for the growth and change of organizational rules and practices along with professional managers and their employees (*ibid.*).

The normative pillar embodies social obligations, which define goals and appropriate ways of achieving them. Normative isomorphism takes place when demands from institutions with moral legitimacy are recognized as binding (Scott 1995; 2001; Hopper and Major 2007). It thus explains that professional people can influence organizational practices and structure. The adoption of a new MAS or change in the existing system and practice can result from the main influence of the financial director, the management accountants and others within the organization who develop their profession through education, training courses, conferences, and professional certificates (Yazdifar 2004). Improving education and training in line with the accounting profession would contribute to reinforce these practices. However, when organizations within the field appear similar and professional socialization is presented in trade association workshops, educational programs, consultant arrangements, professional networks and trade magazines, socialization can act as an isomorphic force (DiMaggio and Powell 1994).

In so doing, the professionalization of management and accounting tends to progress in a way that is analogous with the structuration of the organizational field (DiMaggio and Powell 1983). The flow of information among professionals and personnel movements across organizations contributes to the adoption of new MAPs (normative change) in tandem with the recognition of the hierarchy of positions (*ibid.*). This ordering of positions (titles) happens through either formal or informal means. Furthermore, government recognition of key organizations through the grant or contract process can provide these organizations with legitimacy and survival, and can lead competing organizations to imitate aspects of their structure or operating procedures in the quest to obtain similar rewards (*ibid.*). Additionally, professional and trade associations, both local and international, provide other fields in which central organizations are recognized and their employees given positions of substantive or ceremonial influence. Thus, managers in highly reputable organizations may sequentially have their stature supported by representation on the boards of other organizations, participation in industry-wide or inter-industry councils, membership in international

organizations and consultation by agencies of government (Useem 1979). These will lead to diffuse MAPs and systems through participation in these events.

The work of DiMaggio and Powell (1983) assumes that different factors operating in and around organizations can generate the institutional pressures that lead specific organizations to adopt particular structures and systems. Thus, organizational structures and systems with highly institutional environments are shaped in response to formal and informal pressure from other organizations and government (coercive isomorphism) by imitation of structures and systems adopted by others in response to the pressures (mimetic isomorphism), or by conformity to normative standards established by external institutions (normative isomorphism). Thus, organizations facing the same institutional environment will have similar structures and systems. In so doing, large organizations have responded to new institutional pressure in order to ensure legitimacy and survival (Bhambri and Sonnenfeld 1988; Ribeiro and Scapens 2006). However, institutional pressures in highly institutionalized environments are expected to generate organizational responses, but the responses are not always the same across all organizations. Rather, these responses may differ widely according to the forms of institutional pressures that come from both within and outside an organization as well as the acceptable responses available (Oliver 1991; Greening and Gray 1994).

3.4.3.4. Organizational Level

As discussed earlier, the recursive institutionalization process moves in a recursively cascading manner, through three levels of socio-historical relationships. The economic and political factors are translated into organizational field criteria. At the same time, the organizational field practices and criteria provide the context for action at the organizational level. Institutional practices considered legitimate at the organizational field level are a function of organizational field criteria (isomorphism criteria), and provide the legitimating and regulative base for actions at the organizational level. In this regard, Klein *et al.* (1999) argue that multilevel assumptions begin to link the micro-macro parts, integrating the micro realm focus on individuals and groups with the macro realm focus on organizations, environment and strategy. The outcome of this process is a deeper, richer representation of organizational life (Klein *et al.* 1999).

At the organizational level, working practices within a competitive context are faced with legitimizing structures requiring the implementation of formal rationality in understanding

technical, administrative and contextual relationships. Rather, within the institutional context, subjective understanding based on norms and values of social relationships and internal dynamics is obligatory to navigate the operational context (Dillard *et al.* 2004). Thus, the organizational configuration cannot be continued without the MAS and reporting and, in turn, the organizational structure is granted legitimacy for the accounting system and reporting. Additionally, the organizational structure could not be legitimized without the authorized position of working and doing things (*ibid.*). Zucker (1987) argues that organizational practices are influenced by isomorphism pressures, sometimes arising from within the organization itself. Under some conditions, these pressures cause the organization to be led by legitimated elements, from standard working procedures to professional qualifications and state requirements, which mostly have the effect of directing attention away from task performance. Adoption of these legitimated elements, leading to homogeneity with the institutional environment, increases the likelihood of survival (Zucker 1987).

At the organizational level, some organizations respond to external pressures rapidly; others change only after a long period of resistance (DiMaggio and Powell 1983). Organizations in the institutional theory and diffusion literature are generally characterized as innovators or late adopters. Innovators (early adopters) are those organizations developing new organizational practices, while late adopters are those organizations that adopt the practices of the innovator organizations. The practices of the late adopters are legitimated by both the success of the innovator's practices and the organizational field practices and criteria (Dillard *et al.* 2004). In this way, late adopters may either integrate (loosely coupling) the innovator practices into their organizational processes, or use the innovator practices but decoupling (separating) them from the processes actually used in managing and operating the organization. This decoupling has led to a variation in the imposed practice (Cruz *et al.* 2009). In any organizational setting, the accounting system is loosely coupled when its components are distinct (independent or with some degree of independence) from, yet responding (are connected or linked) to, others (Lukka 2007; Cruz *et al.* 2009).

Within an organization, there could be many settings and individual actors who carry out tasks continually. Under these conditions, the social definition of tasks within the organization often transforms them gradually from performances into "routines" (Nelson and Winter 1982). However, some routines will be simple habits, easily changed when enhanced techniques become known, whereas others will be taken-for-granted aspects that resist

change. Generally, organizational routines enhance institutionalization within a given organization as a function (Zucker 1987) of the following: (a) the degree of overt codification in the form of work rules, formal promotion hierarchies, and other types of formalization of the specific routine; (b) the length of the history of the structure/task; and (c) the degree of embeddedness in a network of structures/tasks (*ibid.*). Any change in one part will make inevitable changes in other structures/tasks on which it is mutually dependent (*ibid.*). These processes are more likely in the event of some diffusion from the task or system; however, internal organizational processes dominate because of extensive buffering of outside consequences (Thompson 1967) and because of the lack of ability to imitate (Nelson and Winter 1982). Hence the role of managers in establishing and maintaining the more institutionalized of these routines is significant (Pfeffer 1981; Zucker 1987).

Dillard *et al.* (2004) identify the possibility of institutions emerging and being modified through actions of individuals and/or groups. However, implied in its formulation, there is a hierarchy of institutional influence where the economic and political level provides the foundations for organizational field-level institutions, and the organizational field grants the context for the institutions confronted by and rooted in organizations. It should also be emphasized that different actor sets may be in a more influential position at different levels. Governmental officials, regulators and legislators may be the key actors at the economic and political levels. Industry leaders, labor unions and external consultants (as isomorphism drivers) may have significant influence at the organizational field level, and the managers and employees may be the key actors at the organizational level. The general conception of agency is maintained; however, the ability of any actor to contribute to the institutionalization process is dependent upon a myriad of factors (Dillard *et al.* 2004). Those factors are interacting between the duality of structure and agency through the process of institutionalization.

In view of this, Zucker (1977) and Meyer and Rowan (1977: 346) primarily drew on the work of Berger and Luckmann (1967) to discuss whether institutions are socially constructed patterns for action, produced and sustained through on-going interactions (Barley and Tolbert 1997). In this light, actors produce institutions through a history of negotiations that guide 'shared typifications' or generalized expectations and interpretations of behavior (*ibid.*). The patterned relations and actions that emerge from this process gradually gain the moral and ontological position of taken-for-granted realities which, in turn, shape future interactions and

negotiations (*ibid.*). On the one hand, Meyer and his colleagues have focused on examining institutions largely as exogenous to organizational action (Meyer and Scott 1983; Scott and Meyer 1983; Scott and Meyer 1984; Meyer and Scott 1991; Scott and Meyer 1994; Sutton *et al.* 1994). Their recent work connects institutional pressures with the demands of centralized authorities or regulatory agencies and, only secondarily, with common beliefs, practices, and norms. As a result, their research has focused on the sources and outcomes of conformity and on the manner in which the environment 'interpenetrates the organization' (Meyer and Rowan 1977; Barley and Tolbert 1997).

On the other hand, Zucker and her colleagues have focused on emphasizing the role of normative and taken-for-granted assumptions in their analyzes of organizations, but have given comparatively little attention to the process by which such assumptions take place and are changed (Zucker 1977; Tolbert and Zucker 1983; Zucker 1983; Tolbert 1985; Zucker 1986; Zucker 1991; Zucker *et al.* 1995; Tolbert and Zucker 1996). This type of work has intended to elaborate, theoretically and empirically, the claim that organizational systems reflect institutional understandings instead of rational calculations of efficiency. However, these studies seldom determine institutionalization directly and only briefly address how particular organizational systems emerge or why their scope (diffusion) is certainly limited. To explain such questions, one needs to examine how actions influence institutions (Barley and Tolbert 1997).

DiMaggio and Powell (1991:8) identify that institutions at the organizational level are conceptualized as 'independent variables' that coalesce within the organizational field. Barley and Tolbert (1997:97) define that institutions can be affected by "individuals, groups, organizations or even higher collectives", and argue that the human actors establish the institutions through routine behavior. Hence these institutions can be changed by the behavior of the actors at either the organizational level or the organizational field level. In this regard, it should be emphasized that Barley and Tolbert (1997) have combined institutional theory and ST to develop a model of institutionalization as a structuration process, and suggest methodological guidelines for examining the process empirically. Barley and Tolbert (1997) argue the similarities between the two theories and develop the discussion on why a fusion of the two could enable institutional theory to essentially advance. Both theories assert that institutions and actions are inextricably linked and that institutionalization is best understood as a dynamic, on-going process. However, the previous perspectives are still defining the

institutions from macro-level angles. In other words, their formulation includes a more inclusive social context, more in line with the sociology-based institutional theory used.

At the organizational level, Dillard *et al's* (2004) framework has some similarities with Burns and Scapens' (2000) framework. Like Barley and Tolbert (1997), Burns and Scapens (2000) combine, at least implicitly, ST with OIE theory in developing their framework of MAC at the organizational level. Unlike Barley and Tolbert (1997), Burns and Scapens (2000) focus explicitly on the organization level, and they view institutions as micro, routine practices brought into existence by the actions of organizational actors. In the same way, Lawrence (1999) develops the notion of 'institutional strategy' to explain patterns of organizational action that are directed toward managing the institutional structures within which organizations struggle for resources, either through the reproduction or change of those structures.

Zucker (1977) has defined institutionalization as a variable, with different levels of institutionalization. In other words, Zucker (1987) shows that change in the institutionalization process for a specific organization can variously take place from the institutional environment, inter-organizational relations, and other organizations, as well as from within an organization. Thus, the relational dynamics sketched in Dillard *et al's* framework provide insights at one level into how these pressures can be brought to bear on an organization. Barley and Tolbert (1997) contend that, for institutional theory to realize its promise for organizational change studies, researchers must develop dynamic models of institutions (see Whittington 1992) and develop methodologies for examining how actions and institutions are recursively related. In extending Dillard *et al's* framework, the framework provided by Burns and Scapens (2000) that inspired OIE theory will be adopted in explaining the micro processes taking place. By doing so, this study seeks headway on both fronts by focusing on their common neglect of the relations between actions and institutions (see Barley and Tolbert 1997). The proposed framework in this study explains how institutions emerge and are reproduced and changed through the interaction of action and structure. Hence it suggests guidelines and procedures for explaining how institutions influence, and are influenced by, action.

Consequently, NIS shows how different extra-organizational pressures, both economic and institutional, can influence the way in which organizations are structured and managed. NIS

can help us to understand the nature of the external pressures on organizations; but not all organizations will conform to these pressures and some could be more susceptible to certain pressures rather than to others. In addition to extra-organizational pressures, there are intra-organizational pressures which influence the processes of MAC. Accordingly, if we want to explain the MAPs and systems of individual organizations, we have to look inside these organizations without ignoring the external factors. To do so, the OIE approach can help us to explain the internal factors and constraints that shape MAPs within the organization. Whereas NIS institutions explain and assume that pressure is applied from outside the organization, OIE enables us to look more closely at institutions within the organization (*ibid.*). The following sections discuss this in more detail.

3.5. Old Institutional Economic (OIE) Theory

OIE theory has its roots mainly in the work of earliest American institutionalists, especially Thorstein Veblen (1898; 1909; 1919), who is deemed to be the central wellspring of OIE theory (Langlois 1989). Veblen (1898) in his pioneering paper asked: “why is economics not an evolutionary science?”. Thus, Veblen applied Darwinian notions to economics (Hodgson 2003a). He considered Darwinism not merely as a biological but also as a philosophical doctrine, with its core an approach to the problem of causality (*ibid.*). Veblen interpreted Darwinism as fundamentally a causal analysis of process: “in the Darwinian scheme of thought, the continuity sought in and imputed to the facts is a continuity of cause and effect” (1919:436). This insistence on elucidation in terms of a cumulative causal sequence (Hodgson 2003a) led Veblen to attempt to develop “a theory of institutional evolution that was purely ‘causal’ in nature” (Rutherford 1998:463). Veblen desired to substitute an evolutionary economics that was portrayed as a theoretical formulation of the ‘economic life processes’. “In this life process what changes over time is the human agent, or more exactly the agent's knowledge, skill, and habits of thought” (*ibid.*: 464). As a result, Rutherford argues that:

“The processes described by Veblen in the formation of the instinctive endowment of a people conform to a Darwinian process of variation followed by selection by the environment, but then Veblen is discussing biological evolution over long periods of time and under stable environmental circumstances in which a genuine struggle to survive could be thought of as existing (see, Veblen 1915:290-1). This theory was never satisfactorily developed by Veblen. At base, his theory was one of new technology changing economic conditions, and new economic conditions leading to new ways of thinking and to new institutions through a (non-intentional) process of ‘habituation’. From this Veblen argues that evolutionary economics ‘must be the theory of a process of cultural growth as determined by the economic interest, a theory of a cumulative sequence of economic institutions stated in terms of the process itself’ (Rutherford 1989:463-6 and see also, Veblen 1898:393).

The proponents of OIE saw that “Hedonist marginalism [i.e. neoclassical economic] relies exclusively on sufficient reason, and therefore creates a picture of the economy that is too rational, too purposive, and too full of human intention” (Langlois 1989). Thus, OIE theorists are consistent with Veblen’s view about pragmatism and change in institutional economics. Recent significant developments include: behavioral economics (see, Commons 1934; Simon 1955; 1959); rethinking economics (see, Hodgson and Screpanti 1991); economics and institutions (see, Hodgson 1988; 1993; 1994); and evolutionary economics (see, Commons 1931; 1936; Nelson and Winter 1982; Tool 1988; Hodgson 1995). Mirowski (1987) argues that OIE has contributed to the reconstruction of economic theory from a hermeneutic (or interpretive) perspective. Institutionalists describe the economy as a process of learning, negotiation and coordination, and not a confirmation or approval of some pre-existent goals or end-state (*ibid.*). Hence they explain social phenomena including social institutions as products of human action, not as artificial action (*ibid.*).

The core assumption of OIE theory is that individual choices and preferences are changeable but are not stable, as assumed in neoclassical theory (Hodgson 1988; Stein 1997). Hence OIE views economics as a social provision and human behaviors as a cultural product (Scapens 2006). OIE thus emerged in opposition to neoclassical economic (NIE) assumptions of rationality, optimization and equilibrium and proposed a holistic and interdisciplinary approach inspired from sociology, politics and law (Moll *et al.* 2006). Institutionalists reject the assumption that economic individual nature is that of a fully informed, autonomous, rational, and maximizing individual with an unchanging human preference and choice (Hodgson 1988; Stein 1997). As a result, OIE explains that the actions of individuals and organizations are socially constructed, and that economic phenomena are processes (Dosi and Nelson 1994; Hodgson 1999). At the same time, human behavior and economic systems are both radically shaped by institutions (Nelson and Winter 1982; Hodgson 1993).

Whereas NIE theory (as an extension of neoclassical) examines institutions as static and tacit phenomena, OIE theory focuses on dynamics and the changing roles of institutions in a way that can assist with an understanding of MAC (Scapens 1994). In doing so, OIE mainly tends to conceptualize and explain accounting change in ‘processual’ terms, and shows why and how organizational behaviors within economic systems become what they are (or are not) over time (Burns and Scapens 2000). On the one hand, early OIE theorists explained institutions at the macro-economic level (society). They defined the institutions as ‘settled

habits of thought common to the generality of men' (Veblen 1919:239). On the other hand, the new institutionalists affirmed the evolutionary and cumulative character of the micro-economic level, or analogized organization-level practices or routines as a biological gene (Nelson and Winter 1982; Hodgson 1993). They defined institutions as "a way of thought or action of some prevalence or permanence, which is embedded in the habits of a group or the customs of a people (Hamilton 1932:84). Such routines, they argue, can eventually comprise taken-for-granted ways of thinking and doing (i.e. institutions) (Moll *et al.* 2006). Recently, OIE theorists have focused more directly on institutional change within organizations (*ibid.*).

Austrian institutionalists, especially Menger *et al.* (1963) and Hayek (1978; 1980), have distinguished between 'pragmatic' institutions and 'organic' institutions. They believe that pragmatic institutions are optimal and emerge through the interactions of individuals pursuing their own intentions which are teleological elements at the individual level and produce some of the recursive causal elements, while organic institutions (e.g. money, language, much of common law) emerge in society without anyone having designed them for a conscious purpose (Menger *et al.* 1963). In the same way, organic institutions are the only institutions that are optimal, whereas pragmatic institutions are efficient inasmuch as they are concerned with a group of individuals and relate to organizations (see, Hayek 1978; 1980). As a consequence, the pragmatic institutions are the product of conscious design and legislative order, whereas organic institutions do not invalidate theoretical inquiry but actually scream out for theoretical analysis (Langlois 1989).

However, Commons (1934) criticized the distinction between organic and pragmatic institutions; he preferred to blur the distinction, defining all institutions as 'collective action in control of individual action'(1934:69). Nevertheless, pragmatic institutions tend to open up the black box (seemingly in ideal systems or organic institutions) to look inside patterns of individual behaviors and actions. Hence, pragmatic institutions are the outcome of individuals' interaction to realize conscious goals (Garrouste 2008). In this way, the pragmatic 'holism' approach of institutions is a wider institutional model to explain the relations between institutions and actions inside the organization (Lawson 1996). This study adopts the OIE approach as well as pragmatic institutions to explain the change in institutional rules and routines within the organization.

3.5.1. The Philosophical Underpinnings of the OIE

OIE theory claims that 'institutions' and the 'institutional context' are key influences, limiting individual and organizational rationality as perceived by the traditional mainstream approach (Oliveira 2010). It assumes individual and organizational actions are established by the socially learned and acceptable pattern of behaviors (Nelson 1994; Hodgson 1998a). Both individual behavior and societal norms are mutually reinforcing; they both influence and are influenced by each other (Hodgson 1993; Dugger and Sherman 1994). The proponents of OIE approach thus declare that, since it has a fair representation of change processes (Commons 1931; Langlois 1989), it consists of the following key methodological underpinnings:

1. Evolutionary Emphasis (i.e. On-going Process of Change):

OIE is *evolutionary*, and focuses on processes – on processes of change and, often, on processes of stability (Oliveira 2010). More recently, Johansson and Siverbo (2009) have stated that OIE adopts a more explicit emphasis on evolutionary theory, although Hodgson (2000) has criticized the ambiguity of the term 'evolutionary' (see also, Pelikan 2011). These authors have emphasized that an evolutionary perspective has the potential to apply not only slow and episodic changes, but also rapid and radical changes (as discussed before in section 2.5.3). The processes of evolutionary change can be outlined as follows: “ [...] the full complexity of the system of institutions and the way in which it bears on individual behavior should be taken into account; and that attention should be directed to the unintended consequence, particularly the unintended aggregate or social consequences of behavior patterns induced by the institutional system taken as a whole” (Rutherford 1987:66). Hodgson further suggested that “institutionalism does not take the individual as a given. Individuals are affected by their institutional and cultural situations” (2000:318).

2. Culture and Institutions Analysis:

Culture and institutions are considered key pillars of OIE that influence human behavior. At organizational level, existing institutions influence actors' behaviors, beliefs and interests and, over time, this may eventually lead to the strengthening of the original institutions (Oliveira 2010). Hodgson concludes, “Institutions are systems of established and embedded social rules that structure social interactions” (2007:1). In turn, social structure comprises all sets of social relations, including the episodic and those without rules, and social institutions (*ibid.*). Accordingly, “organizations are a subset of the set of institutions, and institutions are a subset

of the set of social structures" (*ibid*: 2). Processes of 'habituation' (routinization) provide a mechanism of "reconstitutive downward causation", while institutional conditions may influence individual preferences (Hodgson 2007). He argues that:

"Everyone accepts that institutions depend for their existence upon individuals, and it is sometimes possible for individuals to change institutions. This could be described as 'upward causation'. More controversially, by structuring, constraining and enabling individual behaviours, institutions have the power to mould the dispositions and behaviours of agents in fundamental ways; they have a capacity to change aspirations, instead of merely enabling or constraining them. Habit is the key mechanism in this transformation. Institutions are social structures that can involve *reconstitutive downward causation*, acting to some degree upon individual habits of thought and action" (*ibid*: 13).

The reality of reconstitutive downward causation does not signify that institutions directly, totally, or uniformly establish individual aspirations, merely that there can be important downward effects. Insofar as institutions guide regularities of behavior, concordant habits are laid down among the people, leading to congruent principles and beliefs (Hodgson 2003b; 2004; 2007). Burns and Scapens (2000) laid MA in a context of reconstitutive cumulative causality, while institutions, routines, and rules influence MA behavior, and in turn affect and are affected by each other. In the same way, Gruchy (1987:42) argues that "[...] culture moves, along the following lines. Man is a self-active creature who seeks to satisfy his instinctive drives by using his reason and following customary and habitual ways of behaving. These ways of behaving give rise to institutions, which are the key elements of human culture. Institutions develop over time as aids by means of which men organize and control individual and social behaviour in order to satisfy their wants". Consequently, the institutional structure is also maintained. Because institutions simultaneously rely upon the actions of individuals and constrain and mould them, through this constructive reaction they have strong self-reinforcing and self-perpetuating attributes (Hodgson 2007; Johansson and Siverbo 2009).

In this regard, institutions can take three forms: 'formal', 'informal', or a combination of both. Formal institutions are rooted in rules and conventions that impose action and thought in a particular way. Informal institutions are grounded less in rules and more in subconscious and tacit knowledge. Informal institutions define the way that people think or work without essentially having apparent reason, but rather drawing on tacit knowledge (see, Vanberg 1989; Rutherford 1995; Kingston and Caballero 2009; Oliveira 2010).

3. Methodological Holism (Collectivism):

Proclamations of methodological individualism were more prominent in NIE, while methodological collectivism was more prominent in OIE and sociology (Hodgson 2007). The

social sciences faced an apparent dilemma between individualists and incentive-driven views of action, on the one hand, and collectivists and norm-propelled views, on the other (*ibid.*). Nonetheless, "Methodological individualism conflates the social upon the individual, thus losing sight of key mechanisms of social influence, and is consequently impelled to take the purposes and preferences of the individual as given. Methodological collectivism conflates the individual upon society and thereby lacks an explanation or adequate recognition of how individual purposes or preferences may be changed" (*ibid.*: 6-7). However, methodological individualism follows universal laws of social phenomena in terms of individuals, and methodological 'holism' or collectivism does the reverse (*ibid.*). In fact, OIE stresses methodological holism, starting from the observation that individuals do not live in isolation, but are influenced by the society in which they live (Langlois 1989). In light of this, Gruchy emphasizes that

"All cultural systems are holistic in nature. This means that a cultural system, whether it be a total society or a total economic system, is made up of a number of parts that together constitute the whole or totality of the societal or cultural system. The culturalist methodology emphasizes that much of the significance of a part of the cultural whole is derived from an understanding of the nature of this whole, just as the significance of this whole is grasped by relating it to the many parts that make it up" (1987:42).

4. Instrumental Valuing:

An economic system is linked to what is technological and industrial (instrumental) (Veblen 1919). Ayres (1961) saw instrumental valuing in the life process itself and referred to the process of "doing and knowing", which is a continuous, developmental and cumulative process (*ibid.*: 105). The basis of this process is the employment of instruments; knowing is a task of doing. The employment of instruments (systems) is a process "which imposes the necessity for knowing something of materials and their properties" and involves the growth of skills (*ibid.*: 111). This emphasizes that institutional change is usually accompanied by technical change. Institutional values also depend on knowledge of their beneficial effects for the technical continuum; since such knowledge is considered a function of the technical process, the technical continuum is the locus of all institutional values (Ayres 1961; 1978). In the same way, Dugger and Sherman stress that,

"Since institutionalism is a cultural science, the individual is seen as a product of culture. The individual is not a cultural marionette, because individuals can and do transform their culture through collective action and even through individual action. In fact, culture itself is continually changing through the myriad of actions, inactions, and choices of individuals separately and collectively. Nonetheless, individuals do not act or choose in a vacuum. They act and choose within a particular cultural context" (1994: 107).

Accordingly, the attention should be paid to the cultural nature of this process. This process is not without meaning, because instrumental valuing yields grudging progress - the amelioration of the human condition - and therefore the denotative nature of change,

transformation and progress (Ayres 1961; Adams 1994). This is a cumulative and developmental process because the reality of instruments (systems) and knowledge does not end with individuals but becomes settled in culture. This allows for the accumulation of systems, skills and knowledge, but the accumulation is not the key initiative for change. Change and the developmental nature of the process depend on the combining of previously existing systems, knowledge, or new ways in the culture. As the number of systems or practices grows, so the number of potential combinations rises. Technology is thus usually inherently progressive and includes a tendency to accelerate advances, which is inherent in the nature of systems as well as individual institutions and actions (Ayres 1961; Ayres 1978; Rutherford 1981).

Unlike NIE, OIE stresses the evolution of life processes and seeks causal explanations for the on-going creation and recreation of economic change as well as accounting change. Rather than focusing on equilibrium, OIE explores on-going processes before, during and after equilibrium (Burns 1996). Institutionalists thus adopt institutions as the unit of analysis, and use a processual approach in their analysis (Dugger 1990). As we discussed in the previous chapter (especially sections 2.5.4 & 2.6.3), organizational change literature argued that the processes of change at organizational level cannot be explained by a planned approach. Organizational change can only be explained by processual as well as contextual approaches. However, the processual approach focuses only on internal processes of change (Abdul Khalid 2000; Zoubi 2011). To explain internal and external processes of change, this study adopts the contextual approach (see Dawson 1994). Having discussed the philosophical underpinnings of the OIE, it is significant to understand the relationships between habits, behavior, routines, rules, institutions and actions, which are the core assumptions of the OIE approach.

3.5.2. The Core Assumptions of OIE Approach

The core assumptions of OIE are grounded in institutions, habits, routines, rules, and their evolution. Institutionalists thus do not attempt to construct a particular or general model on the basis of these assumptions (Hodgson 1998a). Rather, these assumptions provide an explanatory power for particular and historically located approaches to analysis (*ibid.*). The OIE approach moves from general thoughts concerning human activity, institutions and the evolutionary nature of economic processes to specific thoughts and theories, related to particular economic institutions or types of economic systems (*ibid.*). Therefore, multiple

levels and types of analysis should be correlated together. A central point here is that the notions of habit, institution, rule and routine can help to provide the relation between the specific (realm of action) and the general (institutional realm) (*ibid.*).

The institutionalists provide a radically different perspective on the nature of human action, depending on the concept of habit. Habits and routines are seen as necessary for human action. Human behavior thus has to be driven by habit. In other words, the early institutionalists described habit as the base of human action and belief. Habit can be portrayed as “a largely non-deliberative and self-actuating propensity to engage in a previously adopted pattern of behaviour. A habit is a form of self-sustaining, non-reflective behaviour that arises in repetitive situations” (Hodgson 1998a:178). Hence, habit links knowledge and belief, and the consequence of belief is consider the establishment of habit. Hence, all knowledge and skills are based on the gaining of habits, and they are also considered as the capacity to tackle a complex problem and the means of dealing with it (Hodgson 2005; 2008). Besides that, experience and perception are usually rooted in the acquisition of a habit of thought or behavior that organizes the actor to classify the critical aspects of or answers to the problem (*ibid.*).

Hodgson (2005; 2008:2,4) has regarded “habits as the basis and individual analogue of routines”. Thus, “routines play a similar role for organizations that habits play for individuals”. The conception of routine refers to repeated sequences of behavior by individuals as well as by organizations. Nelson and Winter (1982:15) have used the conception of ‘routines as genes’ as metaphor, while routines are similar to genes in the sense that they are both generative, rule-like structures and potentialities. Accordingly, routines must be treated as dispositions and organizational memory that refer more to capabilities rather than to behaviors³⁶ (Nelson and Winter 1982). In the same way, Hodgson (2008) concludes that routines are not behavior³⁷; but routines are inherent in behavioral capacities or capabilities. He argues:

³⁶ Nelson and Winter (1982:97) see a ‘routine’ as being like a computer ‘program’, referring thereby ‘to a repetitive pattern of activity in an entire organization’ as well as to skills or capacities. But there is a difference between a computer program and the computer’s output or behavior. The computer program is a rule-based system, with a generative coding that, along with other inputs, determines the computer’s output or behavior.

³⁷ Hodgson gives an example to show that routines are not behaviors: “Consider a firm in which all employees and managers work between 9am and 5pm only. During this working day a number of organizational routines can be energized. At other times the firm is inactive. But the routines do not all disappear at 5pm, to reappear mysteriously the next day. The routines-as-capacities remain, as long as the individuals have the capacity and

"Individuals have habits; groups have routines. Routines are the organizational analogue of habits. But routines do not simply refer to habits that are shared by many individuals in an organization or group. Routines are not themselves habits; they are organizational meta-habits, existing on a substrate of habituated individuals in a social structure. Routines are one ontological layer above habits themselves" (2008: 4).

On the one hand, the use of habit is mostly unconscious (non-deliberative). Habits are immersed repertoires of potential behavior; they may be triggered or supported by suitable motivation or context (Hodgson 2005). Habit can be reproduced from person to person by two mechanisms: *incentive or constraint (i.e. rational) and imitation (i.e. irrational)*. Along with constraint behavior, the behaviors are repeated and the habits giving rise to them are reproduced to acquire particular routines by following specific traffic rules and using particular linguistic terms. In these cases, since others are acting in a certain manner, we can have powerful incentives to behave accordingly. This leads to the creation of habits involved in these behaviors (Hodgson 2005; Hodgson 2008). Alternatively, imitation does not require actors to be fully conscious and it includes some 'tacit knowledge' (Reber 1989; Knudsen 2002). Imitation usually happens even without strong incentives, on the bases that the tendency to imitate is instinctive³⁸, and this instinct has developed for effective reasons among social creatures (see, Veblen 1898; James 1984; Simon 1990). In turn, an imitation instinct would require an existing set of widespread behaviors in the group in order to maintain legitimacy and survival (Hodgson and Knudsen 2006; Hodgson 2008). Otherwise, an emerging tendency to imitate might not have a selection advantage to continue (*ibid.*).

However, the origin of the habit can be portrayed as the foundation of actor choice, and vice versa (Hodgson 1998). Hence, actors can be understood to "behave not only 'as if' they were rational but also 'as if' they were irrational" (Becker 1962:4). Actor "choice, by its nature, cannot be predetermined and remain choice" (Buchanan 1979:179). Accordingly, *habitual behaviors grow to be part of group action; they can develop into routines and institutions* (Hodgson 1998a; 1999). Consequently, social norms and rules are reflected in individuals' habits and actions (Dugger 1990). Thereby, there is mutual influence between social norms and individual actions (*ibid.*). Individuals are the product and the producer of their social reality, and their values and actions appear from and make sense within a particular cultural

disposition to work again together in the same context. Subject to this condition, the routines can be triggered the next day by appropriate stimuli" (2008:6).

³⁸ In this regard, scholars have been distinguished from instincts. Instincts are blunt instruments to cope with changing, complex and unpredictable circumstances. Humans developed the capacity to acquire habits in conjunction with the evolution of a cultural apparatus by which adaptive solutions to problems of survival could be preserved and passed on (Veblen 1914:6-7; and see also, Hodgson 2004; 2005).

context (*ibid.*). Hence, *the concept of rational behavior and the utility-maximizing individual does not make sense to institutionalists* (Dugger and Sherman 1994; Abdul Khalid 2000).

On the other hand, Cohen *et al.* (1996:683) see a routine as a potentiality or capability rather than behavior; they assert that “A routine is an executable capability for repeated performance [habit] in some context that [has] been learned by an organization in response to selective pressures”. Hodgson (2008:7) defines the routine “as a generative structure or capacity within an organization”. “Routines are organizational dispositions to energize conditional patterns of behaviour within an organized group of individuals, involving sequential responses to cues”. The concept of habit is also correlated significantly with the analysis of institutions. It plays a key role in both the definition of an institution and the representation of human action (Hodgson 1998a). Institutionalists thus stress the importance of explaining how specific groups of widespread habits are embedded in, and enhanced by, specific social institutions (Hodgson 1998). Hence, individuals’ habits both reinforce and are reinforced by institutions. In turn, institutions reinforce and emphasize particular behaviors and habits, and hence help transmit them to new members of the group (Hodgson 1998a; 2000).

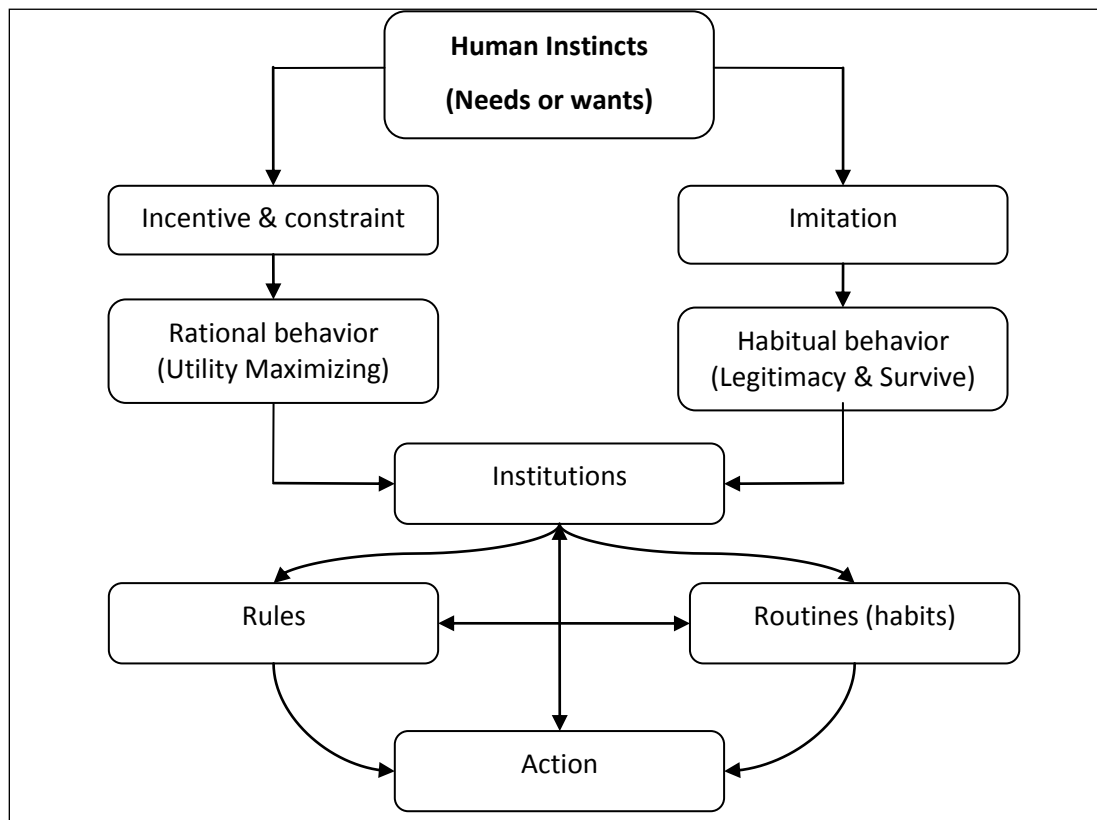
Accordingly, there is a duality between individuals’ habits and institutions on one side (Hodgson 1998a; 2000) and group routines, rules and actions on the other. As a result, there are interrelationships among habits, routines, rules, institutions and actions (see figure 3-10). Institutions reduce uncertainty by providing a structure to everyday life; hence, they include both formal rules, such as laws and regulations, and informal rules, such as conventions and standards (Kingston and Caballero 2009). It should be emphasized that institutions are the rules that govern human behavior (Hodgson 1998a; 2000). According to institutional logic, there are positive incentives for habitual behavior that complies with the rules, and sanctions for deviations from those rules (Adams 1994). This shows that institutions have stability and an inert quality, and thus provide stability for group routines (Hodgson 1998). Consequently, Hodgson explains,

“Institutions are formed as durable and integrated complexes of customs and routines. Habits and routines thus preserve knowledge, particularly tacit knowledge in relation to skills, and institutions act through time as their transmission belt. Institutions are regarded as imposing form and social coherence upon human activity partly through the continuing production and reproduction of habits of thought and action.” (*ibid.*: 180).

The OIE approach assumes that behavioral habit (action) and institutional structure are mutually tangled and mutually reinforcing; both assumptions are relevant to provide a holistic picture of the process of institutionalization³⁹ (Commons 1934:69). This comprises the form and diffusion of manual procedures and learned symbols and meanings (i.e. rules and routines). By doing so, institutions are presumed to be a central part of the cognitive processes through which sense-data are recognized and regarded as meaningful by actors (Hodgson 1998a). Consequently, *OIE uses institutions as units of analysis*, rather than the role of the individuals⁴⁰. A dual pressure on both agency (action) and structure (institution), emphasizes the significance of institutions and rules in human society (Bashkar 1979; Giddens 1984; White 1992). Both individual actions and institutions are mutually constitutive of each other. Institutions embody, and are embodied by, human action (Hodgson 1998a; 2004). The recurrent interaction between actor (rational & irrational) and structure is dependent on the correlated concepts of habit, routine and institution (Hodgson 1998a; 2008). Figure (3.10) summarizes the core assumptions of OIE theory, and sketches how these assumptions can be manifested through the process of institutionalization, starting from human instincts until they become taken-for-granted action in a gradual way:

³⁹ Hodgson (1998) gives pricing theory as a good example of the process of institutionalization: In institutionalism prices are social rules that are emphasized by habits and embedded in particular institutions. Such rules are changed and reflect various types of commodity, institution, method of calculation, and pricing process, while neoclassical economics relies on the general concepts of demand, supply, and marginal utility. If prices are rules then they rely in part on ideas and habits. A theory of price must in part be a theory of ideas, habits, expectations, and institutions, involving routines and processes of valuation. Without such a theory, there is no appropriate explanation of how individuals calculate or shape expectations of the future.

⁴⁰ Hodgson justifies the reason for using institutions as units of analysis: "The fact that institutions typically portray a degree of invariance over long periods of time, and may outlast individuals, provides a reason for choosing institutions rather than individuals as the basic unit. Most institutions are temporarily prior to the individuals that relate to them. We are born and socialized within a world of institutions. Recognizing this, the Institutionalists focused on the specific feature of the specific institutions, rather than building a general and a historical model of the individual agent" (1998:172).

Figure (3-10) The Process of Institutionalization in the OIE Approach

(Source: Author)

According to above model, the process of institutionalization⁴¹ in the OIE approach, or in the terms of definitive formulation of knowledge, is a gradual one; and all the actions and institutions have shared, albeit at an unequal level, in the change that is going forward. The life history of the organization is a cumulative process of adaptation of means to ends that cumulatively change as the process goes on, both the organizational members and environment being at any stage the result of the past process (see, Veblen 1898; 1919). Through this process of mutual engagement, institutions play a key role in providing a cognitive framework for interpreting sense-data and in providing intellectual habits or routines for transforming information into useful knowledge (i.e. practices). The strong influence of institutions upon individual cognition provides various and changeable actions among many actors (see, Hodgson 1998a; 1999).

⁴¹ This process is also called the process of 'habituation' or 'routinization'. These processes provide a mechanism of "reconstitutive downward causation" for daily working practices.

To conclude, institutions, i.e. settled ways of thinking and doing in a social system, are central to the OIE approach to the analysis of processes of organizational change (Ribeiro and Scapens 2006). The main concern of OIE researchers is not only to analyze the position of prevailing institutions in change processes, but also to explain the reproduction or change in institutions over time (*ibid.*). Habits and routines are integral elements of institutions. Both refer to ways of thinking and by doing so become regular over time: but whereas habits are attributes of the individual, routines consist of the regular ways of thinking and doing at the level of both the individual and the group (*ibid.*). The frequent reproduction of habits and routines through time can gradually lead to institutionalization, which is a “natural” process through which particular patterns of thought and action become prevalent and taken for granted as the way things are (Burns and Scapens 2000; Scapens 2006; Ribeiro and Scapens 2006).

The OIE approach in MA research has only ‘recently’ been adopted among the different institutional theories, NIS and NIE. Drawing particularly on the combined insights of, for example, Nelson and Winter (1982), Hodgson (1988) and Barley and Tolbert (1997), Burns and Scapens (2000) have applied the OIE approach to develop an institutional framework of MAC at organizational level. They also explained how accounting systems and practices can (though not necessarily) become ‘routinized’ or ‘institutionalized’ over time within a specific organization. Having discussed the core assumptions of OIE framework, and before discussing Burns and Scapens’ framework inspired by OIE, it is important to display how it was developed in the MA research.

3.5.3. Key Theoretical Antecedents of OIE-Inspired Accounting Research

MA authors have drawn on the insights of Veblen, the creator of OIE, to explain the effects of institutions on organizational change (Moll *et al.* 2006; Oliveira 2010). As mentioned before, early OIE research focused on the macro level of society and economy (Burns 2000; Moll *et al.* 2006). As Veblen argued, organizations can be changed according to two main processes: (1) cumulative causation (Veblen 1919); and (2) blind drift (Veblen 1964). Organizations are frequently changing in a cumulative causation approach, but they do not essentially move in a specific desired direction. They do not automatically shift from a lower to an upper level. Rather, organizational systems are simply changing and moving in the path of least resistance or in the direction of most power (this is called blind drift). However, cumulative causation is the process of one change leading to another (i.e. evolutionary change). Hence, an

organization usually assembles momentum in one direction, eventually leading to change in existing institutions and routines (Dugger and Sherman 1994).

However, only in recent times, especially following Nelson and Winter (1982) and Hodgson (1988; 1998a, b) from one side and Giddens (1979; 1984) from another, has OIE started to be applied at organizational level, in a revival of institutional accounting research (Oliveira 2010). On the one hand, Nelson and Winter (1982) have developed 'an evolutionary theory of economic change'. They have emphasized the habitual and routinized nature of accounting practices. Like Veblen, Nelson and Winter proposed that evolutionary theory provides a basis for conceptualizing both stability and change, and both inertia and innovation. Habits or routines can be adapted slowly or can "mutate" as driving forces attempting persistent improvements. Furthermore, there is a selection process through which some habits and routines are retained and imitated, while others diffuse for use. Thus, OIE institutionalism is hereditarily an 'evolutionary economics' that is subjected to dynamic rather than equilibrium-oriented modes of theorizing (MacLeod 2004).

However, Hodgson (1998b) declares that 'evolutionary economics' is a vague and often ill-defined concept. The evolutionary model developed by Nelson and Winter (1982) and their followers does not necessarily involve the adoption of evolutionary metaphors from biology. In fact, OIE institutionalism does not look for a general theory of everything; rather, it requires a coherent framework of analysis and a practical methodology (Hodgson 1998a). It is worth noting that Geoffrey Hodgson introduced the possibility of an economics approach that would break away from the static and vagueness of previous doctrines. Thus, Hodgson explains clearly the ambiguity in OIE theory and its assumptions including habits, routines and institutions, and their evolution (see, Hodgson 1988; 1989; 1993; 1994; 1995; 1998a; 1998b; 1999; 1999; 2000; 2000; 2003a; 2003b; 2004; 2005; 2007; 2007; 2007; 2007; 2008).

On the other hand, a key contemporary theorist who helped renew the stream of OIE research is Anthony Giddens (see, Giddens 1976; 1979; 1984; 1985; 1987; 1990; 1991; 2001; 2005), especially through his structurationist perspective on understanding MA and organizational change in MA studies. Giddens has gained considerable influence in a vast body of secondary accounting literature (see, Pettigrew 1985b; Clegg 1989; Macintosh and Scapens 1990; Morgan 1990; Armstrong 1991; 1991; Whittington 1992; Scapens 1994; Boland 1996; Scapens and Macintosh 1996; Burns and Scapens 2000; Ribeiro 2003; Seal 2003; Moilanen

2008; Busco 2009). Giddens adds the distinct notion of 'dualism of system between structure and agency'. According to him, "social systems are constituted by the activities of human agents, enabled, and constrained by the social structural properties of these systems. These structures define both the rules – techniques, norms or procedures – guiding action, and the resources – authoritative and allocative – empowering action" (Giddens 1984:21). "According to the notion of the duality of structure, the structural properties of social systems are both medium and outcome of the practices they recursively organize" (Giddens 1984:25).

Nevertheless, while ST explicitly presumes a hermeneutic starting point (Giddens, 1984: 3), Giddens ventures beyond the position of hermeneutic voluntarism by elaborating notions including 'structuration' 'duality of structure', 'structural properties', and 'system', interlinking them strongly with the agential dimensions of daily social life (Broger 2011:377). However, Whittington (1992:694) proposes that "Giddens' conception of plural structural rules and resources offers a possible framework for analysing in common terms what often appear in this tradition as highly disparate social variables. Reconceptualizing institutional environments in the terms of structuration theory could, moreover, provide a way out from the institutionalists' self-confessed tendency to determinism". Also, Pettigrew (1987) concludes that Giddens' influence is substantial but lopsided. Giddens' concern for the intersection and tension between different social systems has been particularly neglected (Whittington 1992).

Along with MA literature, Macintosh and Scapens (1990; 1991) and Roberts and Scapens (1985) have attempted to apply ST in MA research. However, they felt that ST is not helpful for explaining the processes of change. Afterward, Scapens (1994:301) affirmed that the focus should turn to 'the study of management accounting practice per se' rather than focusing on the 'gap'. Thus, Scapens (1994) used OIE to develop an alternative framework for explaining MAC by drawing on the work of Nelson and Winter (1982) and Hodgson (1988), and by borrowing the definition of institutions from Veblen (1919). As Hodgson points out, "institutionalists bring a different perspective to the analysis of learning by seeing it, in part, as a transformative and reconstitutive process, involving the creation of new habits, propensities, and conceptual frameworks" (1998a:175).

Accordingly, the more recent work recognizes a duality between human action (agency) and the institutions that structure that activity (see Giddens 1984). It explains the way in which habits, rules and routines can structure organizational activity, and how they evolve over time

(see Hodgson 1993). By combining ST and institutional theory, Barley and Tolbert (1997) have developed a new theoretical model of institutionalization. The work of Giddens (1976; 1979; 1984) appears to have been a significant basis of inspiration for Barley and Tolbert's (1997) model, in which the ideas of "institutional realm" and "institutional action" are stressed (Guerreiro *et al.* 2006). Thus, Barley and Tolbert (1997) converted the static Giddens (1976) model to a dynamic model of social structuration in which the ideas of institution and action interact in a chronological dimension⁴², hence modifying the 'scripts' of the actors through the processes of encoding, enacting, replicating (or revising), externalizing, and objectifying (*ibid.*).

In so doing, Barley and Tolbert (1997) explained the relationship between agency and structure over time, and then sketch a model describing the process of institutionalization. They have substituted the notion of 'scripts' for what they describe as Giddens' more abstract notion of 'modalities', arguing that scripts "can be empirically identified, regardless of the type of actor or level of analysis in which the researcher is interested" (1997:98). In the context of MA research, Burns and Scapens (2000) used a modified version of Barley and Tolbert's (1997) model to conceptualize the processes of MAC, over time, by recasting the notion of 'scripts' into the concepts of 'rules' and 'routines' at organizational level. Burns and Scapens framework also converted the processes of Barley and Tolbert's model into new processes: 'encoding', 'enacting', 'reproduction', and 'institutionalization' (Guerreiro *et al.* 2006); which has been illustrated in more detail in the following sections.

3.5.4. Burns and Scapens' (2000) Framework

Burns and Scapens' (2000) framework was influenced by the notions of OIE (Hodgson 1988), ST (Giddens 1984) and evolutionary economics (Nelson and Winter 1982). Thus, Burns and Scapens' framework is grounded in the duality of action and institutions⁴³. This duality has been further elucidated by drawing on Giddens' (1984) ST (Macintosh and Scapens 1990; Barley and Tolbert 1997). Institutional theory shares the views of ST (Wickramasinghe and Alawattage 2007). In the same way, Burns and Scapens' (2000) framework drew on Barley

⁴² In this light, Archer (1995:65) concludes that "structure and agency can only be linked by examining the *interplay between them over time*, and without the proper incorporation of time the problem of structure and agency can never be satisfactorily resolved".

⁴³ This duality can be described thus: "people normally develop routines from their actions. The actions come from institutions, and in turn, actions develop institutions. Before actions become taken-for-granted institutions, people develop routines through following rules. Hence people are always confronted with rules. By following rules over time, you become more familiar with them" (Wickramasinghe and Alawattage 2007:430).

and Tolbert (1997), who proposed the integration of institutional theory, and Giddens' ST by developing a recursive model of organizational change over time. Giddens (1984) used the idea of modalities to link the knowledgeable capacities of human actors (Agency) to the structural properties of institutions (Structure). Barley and Tolbert (1997) have investigated the relationship between agency and structure over time, and then replaced the idea of 'scripts' with what they described as Giddens' more theoretical idea of 'modalities'. Burns and Scapens (2000) recast 'scripts' as 'rules and routines' and focused their attention on the organizational level in attempting to explain micro processes.

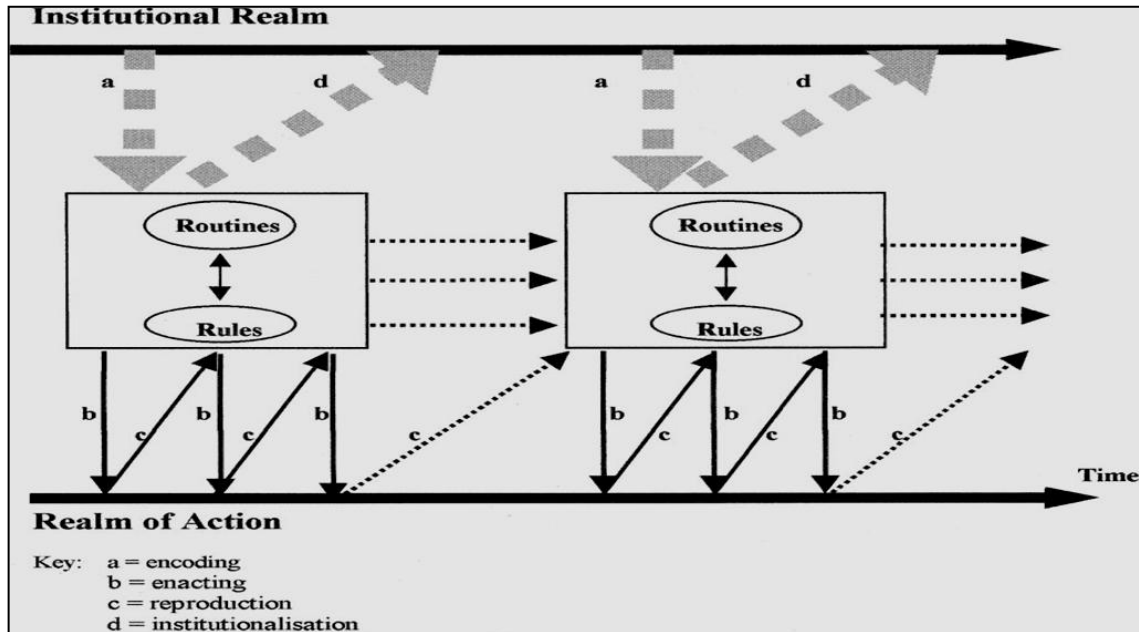
Burns & Scapens' (henceforth B&S) framework provides a useful starting point for interpretive case-studies of MAC. It has become widely used as a seminal and reliable research stream depending on OIE approach within MA literature, (see, Abdul Khalid 2000; Hassan 2005; Yazdifar and Tsamenyi 2005; Ribeiro and Scapens 2006; Ter Bogt 2008; Oliveira 2010; Zoubi 2011). The OIE framework sketched by Scapens (1994), and further developed by Burns and Scapens (2000) has been adopted in this research, to understand the processes of MAC at organizational level. Although the framework particularly deals with MAC, it could be used to understand change in other organizational practices. Furthermore, this approach is experiencing a renaissance in the social sciences including accounting science (DiMaggio and Powell 1983). However, Burns and Scapens declare that

"It should be emphasized that this framework is not intended to provide operational constructs for empirical research and hypothesis testing. Rather, its purpose is to describe and explain analytical concepts which can be used for interpretive case studies of management accounting change" (2000:9).

Burns and Scapens' framework (set out in Figure 3.11 below), was developed as a basis for studying MA rules (systems) and routines (practices) as processes within a specific organization. The central idea of this framework is MASs and MAPs, a part of the organizational rules and routines. Accordingly, studying the processes of MAC requires a conceptualization of the ways in which new accounting practices evolve over time (Nelson and Winter 1982). Thus, this framework includes four main elements: institutions, action, rules and routines. The institutional realm (on the top line) embraces institutions that show the ways of thinking and the underlying assumptions that shape how people behave (Scapens 2006). Burns and Scapens (2000:8) define institutions as "the shared taken-for-granted assumptions which identify categories of human actors and their appropriate activities and relationships". Burns *et al.* (2003) explain that institutions are taken-for-granted assumptions that inform and shape the actions of individuals, while actions are carried out over time. The

institutional realm and the realm of action are linked by rules and routines, which shape the actions that people perform over time.

Figure (3-11) The Process of Institutionalization



(Source: Burns and Scapens 2000:9).

The B&S framework reflects “the process of institutionalization”, i.e. a continuous process of change over time. It has been built on the duality of social systems: institution realm (structure) and action realm (agency). Hence it combines two elements: synchronic processes, (a) and (b) arrows, and diachronic processes, (c) and (d) arrows. This means that “whereas institutions constrain and shape actions synchronically (i.e. at a specific point in time), actions produce and reproduce institutions diachronically (i.e. through their cumulative influence over time)” (Burns and Scapens 2000:9). Both realms are continuous in a cumulative process of change over time, as indicated by the solid lines at the top and bottom of the model. The central part of this framework is “rules and routines” that link institutions with action over time. Hence, the institution, action, rules and routines are a cumulative process of change⁴⁴. However, the processes of change in the institutions can take place over longer periods of time (i.e. slower) than change in the actions. Over time, new rules and routines may be launched and emerge in different ways, as represented by the separate box (see, Barley and Tolbert 1997; Burns and Scapens 2000).

⁴⁴ According to Burns and Scapens (2000:12), “there are no dotted horizontal lines in the institutional realm and the realm of action as these are ongoing and in a cumulative process of change”.

According to above framework, rules are the formal statements of procedures, while routines are the procedures routinely in practice or use. The location of rules and routines in the boxes is fairly arbitrary, just like the chicken and the egg: which come first? (see Hodgson 1998a). It might be understood by either. Routines are the procedures - in practice they are closer to the realm of action, and hence should come under rules; however, individual actions are primarily observable, and rules, being formal procedures, are expected to be more observable than routines. This has to be explained from the complex web of actions observed in any specific context. Therefore, routines are more theoretical than rules and are thus closer to the institutional realm. In either case, it is significant to see rules and routines as interacting and connecting between the realm of action and the institutional realm (Burns 2000; Burns and Scapens 2000).

Along with the B&S framework, it is also important not to see discrete changes taking place, as represented by the movement from one to another box of rules and routines in the model, in an overly deterministic way (Burns and Scapens 2000). Rather, there is no starting and no ending point of the process, and all processes are continuous over time⁴⁵. Thus, the implementation of the new rules (systems) and the emergence of new routines (practices) may be influenced by both the encoding of the structural properties of ongoing institutions and/or the reproduction of existing routines (*ibid.*). This process is displayed in the model by the dotted horizontal lines between the two boxes. In other words, new rules can be interpreted in the context of the existing rules and routines; at the same time, the reproduction of the previous routines [i.e. dotted line (c)] will influence the implementation of the new rules and the emergence of the new routines. This will include effective resistance to the new rules and the continuation of the existing rules (*ibid.*).

On the other hand, "rules may be imposed and become implemented through the establishment of routines, or rules can emerge out of the established routines. In either case, the enacting and reproduction of rules and routines will continue over time, and in this process the routines may be changed" (Burns and Scapens 2000: 11). It is noteworthy that *institutions always exist prior to human action* (i.e. before any attempt by the actors to introduce change), and hence will form the processes of change (*ibid and see also*, Bhaskar 1998). However, these processes of change may result in the forming of new routines⁴⁶, over

⁴⁵ The initial process of encoding is an arbitrary starting point.

⁴⁶ This emphasizes that the reproduction of routines can take place more quickly than the reproduction of rules.

time, which may become institutionalized. As a result, the process of institutionalization overall is always being shaped by prevailing institutions (ibid.).

3.5.4.1. The Process of Institutionalization

Nelson and Winter (1982) suggest that processes of institutionalization are essential for understanding how practices (routines) emerge and reproduce to become an institutionalized action within an organization. It is also important for examining the role of emergent routines in the innovation. However, change in institutions can occur either through the introduction of new rules or change in the existing routines. Any change in institutions can occur in two forms: intentional, i.e. taking place through conscious design; and/or unintentional, i.e. taking place through unconscious decision (Abdul Khalid 2000; Yazdifar 2004). In this regard, Zucker (1983:5) asserts that the process of institutionalization has continued to dominate. He argues that,

“Institutionalization is rooted in conformity - not conformity engendered by sanctions (whether positive or negative), nor conformity resulting from a "black-box" internalization process, but conformity rooted in the taken-for-granted aspects of everyday life [...] institutionalization operates to produce common understandings about what is appropriate and, fundamentally, meaningful behaviour”.

The process of institutionalization in the B&S framework is a modified version of Barley and Tolbert's (1997) model as Barley and Tolbert (1997) used the notion of “*scripts*” rather than “*modalities*” used in Giddens' ST. They define scripts as “observable, recurrent activities and patterns of interaction characteristic of a particular setting” (*ibid*: 98). They explain that these scripts can be changed through four processes of institutionalization: (a) the encoding of institutional principles in *scripts* used in particular situations; (b) the institutionalization of meaning and value as those scripts are enacted; (c) the revision or replication of the script as institutionalization occurs; and, finally, (d) the objectification and externalization of the script as patterned behavior is developed over time into a taken-for-granted and actual acceptance of the institutional setting and the obscuring of the existing interests of the actors (*ibid.*). In extending this model, Burns and Scapens (2000) affirm that this notion of ‘scripts’ can be similar to the notions of ‘rules and routines’, and they focus their attention on the organizational level in attempting to explain micro processes. They explain the process of institutionalization in ‘rules and/or routines’ as a way of thinking and doing, which takes place over four micro-processes (as shown in figure 3-11 above).

The first process (*arrow a*) involves *encoding* of prevailing institutions and institutional principles into rules and routine. Generally, the existing routines will symbolize the existing (or prevailing) institutions, and hence shape new rules and routines (i.e. lead to the constitution and/or reconstitution of the on-going routines). As a result, this process draws on the taken-for-granted assumptions by encoding existing institutions and meanings into the new rules, routines and procedures, which embody organizational standards and principles. These new rules or procedures are usually interpreted in terms of the existing norms, values and power of individual actors who use the system (Burns and Scapens 2000; Scapens and Burns 2000). The introduction of new rules (systems) can result from different external factors, including government requirements, imitation of similar organizations, consultations, and professional bodies. Dawson (1994:36-7) concludes that the primary need to change may result from both external and internal pressures facing the organization:

“The increased complexity and uncertainty of international business markets has led some organizations to base change on imitation (which organizations are successful and what changes they have introduced), rather than on any conception of a need to adopt untried technologies or techniques [...] What is important is how the conception of a need to change can be influenced by factors residing within the organisation such as organisational inefficiencies, industrial relations disputes or those which emanate from outside the organization - for example, through business press and media reports on success of other organizations and the direct and indirect promotion of various management fads and fashions”.

Accordingly, the encoding process reflects the harmony and alliance relation between OIE and NIS in explaining accounting systems and practices. This process represents the first stage of adopting new systems and practices at organizational level, and it came from the external environment or pressures. Through this process, organizational actors use their power and politics either to enable the new system or to constrain the potential conflict over and resistance to the new system. In this regard, Scapens (2006) argues that attempts to introduce new systems that defy existing rules or routines can be hindered by power struggles and vested interests.

The second process (*arrow b*) entails actors' behaviors in *enacting* new rules and routines. This process embodies the interaction between existing institutions and new rules or routines. In other words, existing institutions always enact new rules and routines. Thus, new rules are enacted when organizational actors employ them in their daily on-going actions or activities. Hence, successful enactment of the new rules (systems) depends on whether the institutions and norms underpinning them are compatible with the institutions and norms of those who will enact or implement them. Conversely, the enacting process could be subjected to resistance (and conflict or failure) if new rules or routines require a different way of thinking

and acting in the organization (i.e. challenging existing institutions) or if actors have sufficient resources of power to intervene in this process⁴⁷ (see Burns and Scapens 2000). On the other hand, the enactment process may include conscious choice, as a result of reflexive monitoring and the use of tacit knowledge, to determine how things are done (*ibid.* and see also, Scapens 1994). In doing so, organizational actors could use circuits of power in another way to facilitate the enactment process in seeking to assemble the heterogeneous interests of the actors into the main interest (e.g., implementing a new system). Accordingly, the choice of power and politics is a double-edged sword that can be used as a key facilitator or barrier to the change.

The third process (*arrow c*) is reproduction⁴⁸, which can take place as the outcome of repetitive behaviors that in turn lead to a reproduction of the routines. It should be emphasized here that the reproduction of routines takes place more rapidly than the reproduction of rules; hence this process focuses more explicitly on routines. Through this process, the on-going enactment and reproduction processes contribute to create new routines that are different from the existing routines or procedures. As the routines are enacted and reproduced, a *truce*⁴⁹ tends to appear amongst heterogeneous actors as they find alternative ways of working that are both effective and acceptable. There may still be potential conflict (or resistance) among organizational actors, thus requiring the use of power. In fact, "conflict, both manifest and latent, persists, but manifest conflict follows largely predictable paths and stays within the bounds that are consistent with the ongoing routine. In short, routine operation involves a comprehensive truce in interorganizational conflict" (Nelson and Winter 1982:110). Hence, powerful routines provide both the reproduction of behavior and the cohesion of the organization (Scapens 1994).

⁴⁷ In this regard, Burns and Scapens (2000:10) point out that, "in the absence of 'external' changes, such as advances in technology, or a take-over crisis, there is unlikely to be a reopening of previously agreed arrangements and therefore routines may become somewhat resistant to change. Nevertheless, change can take place".

⁴⁸ Burns and Scapens (2000) stated that there is some similarity between the social concept of 'reproduction' and the psychological concept of 'reinforcement'. However, they emphasize that this concept of reproduction reflects the processes of change through which routines are 'reproduced' either in the *similar or dissimilar form*. However, the concept of reinforcement is more concerned *only* with the processes of change through which routines are reproduced in the same form.

⁴⁹ Becker (2004) illustrated *truce* as a key function of routines. Nelson and Winter argue that truce "tends to give rise to a particular symbolic culture shared by the parties (...) [and] the fear of breaking the truce is, in general, a powerful force tending to hold organisations on the path of relatively inflexible routine" (1982, p. 110-112).

The final process (*arrow d*) is *the institutionalization* of rules and routines. Thus, once the routines (or rules) are enacted and reproduced through continual organizational activities or actors' behaviors, they become institutionalized⁵⁰. Hence, this process of institutionalization,

"[...] involves a disassociation of the patterns of behaviour from their particular historical circumstances, so that the rules and routines take on a normative and factual quality, which obscures their relationship with the interests of the different actors. In other words, the rules and routines become simply the way things are, i.e. institutions. These [new] institutions will then be encoded into the ongoing rules and routines and will shape new rules, and so on" (Burns and Scapens 2000:11).

Within the institutionalization process, Chenhall and Langfield-Smith (1998) argue that accountants do not have the ability to participate and give an opinion to their managers about how the new system should be implemented inside the organization. Thus, the accountants may not have an "active" role to play, particularly in the application of change for a whole organizational system. It is probable that accountants are not involved in other aspects of the organization and they only perform a traditional role. The managers use their own knowledge and experience to implement the new system by depending on acceptable methods. On the other hand, the accountants might play a certain power role in resistance to or facilitation of change. Buchanan and Badham (1999:53) affirm that

"The most powerful groups are those which cope independently and effectively with the greatest uncertainty using expertise not available elsewhere in the organization. These factors are also designed into or embedded in the organizational structure. This "strategic contingencies" explanation of relative power and powerlessness also helps to explain the differing levels of influence of, say, accountants and human resource professionals in many organizations".

Consequently, institutions are taken-for-granted routines represented in the rule-based behavior of a certain social group, and the routines themselves are viewed as the local instantiation of the institutions. Institutions that are accepted more deeply and widely are more likely to impact on the action and be more resistant to change (Burns and Scapens 2000). For this rationale, MA is portrayed as a routine and a potentially institutionalized, organizational practice. By being institutionalized, MA can, over time, appear to support the 'taken-for-granted' ways of thinking and doing within a specific organization (ibid. and see also, Mouritsen 1994). As such, Burns and Scapens conclude that

"Institutions are the structural properties which comprise the taken-for-granted assumptions about the way of doing things, which shape and constrain the rules and routines, and determine the meanings, values, and

⁵⁰ Such institutionalized rules and routines become 'taken-for-granted ways of behaving [...]. They become the unquestioned (and unquestionable) way of doing things' (Burns and Scapens 2000:11). This process can also be called the stability stage, or taken-for-granted ways of working, or unquestioned ways of doing. Scapens (2006) points out that individuals come and go but taken-for-granted ways (institutionalization) continue.

also powers of the individual actors. As they are disassociated from the particular historical circumstances, they exist only in the understandings and stocks of knowledge of the individuals and groups. They are more abstract than rules and routines (hence, the dotted lines used for arrows a and d), and they bind time by shaping actions period-by-period (hence, the several b and c arrows for each pair of a and d arrows). Furthermore, encoding and institutionalization are ongoing processes, rather than distinct identifiable movements (hence, the broad lines used for arrows a and d)" (2000:11).

3.5.2.2. The Elements of Burns and Scapens' Framework Inspired by OIE

The framework, in this study, can include six key elements: institutions, represented by 'institutional realm'; actions, represented by 'realm of action'; and rules and routines, which interact and link between the institutional realm and the realm of action. There is also stability and change in rules and routines. Each element of the framework is described as follows.

1. Institutions and Actions

The primary focus of the B&S framework is "the recognition that management accounting practices can both shape and be shaped by the institutions which govern organizational activity" (Burns and Scapens 2000:5). This framework attempts to recognize the mutual relation between an 'institutional realm' and the 'realm of action' that are interlinked by the diffusion and transformation of rules and routines (Hoque and Rossingh 2006). Hodgson and Calatrava (2006:2) describe this relation as follows:

"Institutions are the kinds of structures that matter most in the social realm: they make up the stuff of social life. The increasing acknowledgement of the role of institutions in social life involves the recognition that much of human interaction and activity is structured in terms of overt or implicit rules. [...], we may define *institutions* as systems of established and prevalent social rules that structure social interactions. Language, money, law, systems of weights and measures, table manners, and organizations (and other organizations) are thus all institutions".

This duality⁵¹ between actions and institutions is essentially the same duality between agency and structure in the Giddens ST. That is, agency is capacities of human actors, while structure is structural properties of institutions. Hodgson and Calatrava (2006) affirm that an emphasis by this duality on agency and institutional structure is required, wherein it is understood that institutions themselves are the results of human interactions and aspirations, while historically-given institutions appear before any individual action. In essence, Burns suggests that "an organisation's institutional realm comprises components of potentiality, whereas the

⁵¹ The duality between actions and institutions is the same relationship as that between speech (acts) and language (rules). For effective communication, every expression must agree with the underlying, tacitly understood, structure of the language. In the same way, to interpret actions in social context, they must follow the taken-for-granted assumptions about the activities and links appropriate for the different groups of actors. Thus, the language change is developing over time through the speech acts of the society of speakers. Similarly, institutions are the result of the behaviors of the social group or society (Burns and Scapens 2000).

realm of action is made up of observable actual behaviour” (2009:8). An organization’s institutional realm may thus embody generalized habits of thought (or ‘institutions’), organizational behaviors, norms, traditions, customs, conventions, mores, local folklores, organizational routines and even habits (Burns 2009). On the other hand, institutions both constrain and enable action. This emphasizes the reality (existence) of rules including constraints. Therefore, such rules can open up possibilities: they can enable choices and actions that otherwise could not exist. For example, the rules of language permit us to communicate; traffic rules facilitate traffic to flow more easily and safely; the rule of law can enhance personal safety. Regulation is not always the opposite of freedom; it can be its ally (Hodgson and Calatrava 2006).

2. Rules and Routines

As discussed earlier, rules represent the formal procedures while routines are the procedures in actual practice. Rules are normally changed at separate intervals while routines have the potential to be changed in a cumulative process. Hence, the extent to which particular routines are changed can depend on other rules and routines, including monitor and control procedures. In the MA context, rules include the formal MASs, as they are set out in the procedure manuals, whilst routines are the MAPs actually in use (Burns and Scapens 2000). However, actual practices in use may not usually reproduce the systems set out in the procedure manuals (Roberts and Scapens 1985). Organizational rules, such as routines, regulations and policy statements, are the storage of organizational memory. Changes in the rule system, either creating new rules or changing existing rules, reflect the growth in the learning process and systems (Nelson and Winter 1982; Levitt and March 1988; Powell 1988). The learning process emerges through learning by doing and problem-solving (Zhou 1993; Hodgson and Calatrava 2006). Thus, rules could be imposed and achieved through the establishment of routines; in turn, rules could emerge out of the established routines. Under both, the enacting and reproduction process of rules and routines carry on over time (*as in arrows b & c*), and in this process the routines can be changed before becoming institutionalized (Burns and Scapens 2000).

MA routines can emerge from rules (formal procedures) and vice versa (Scapens and Burns 2000). Usually formal procedures such as budgeting or planning manuals are performed through the steps and processes that organizational actors have to follow in conducting their activities (Siti-Nabiha and Scapens 2005). These procedures may be modified or changed by

organizational actors by finding acceptable and alternative ways of performing their activities. In this way, routines can emerge from the on-going actions in a different form from formal procedures. Accordingly, the organization must document (write) these routines into manual procedures for specific purposes, e.g. training new members or enforcing an internal control system through the compliance of organizational actors (Burns and Baldvinsdottir 2005). Conversely, formal procedures (including manual procedures) can emerge from routines. This does not mean that organizational procedures will always be changed. Rather, if the procedures are workable and acceptable, the practices in use (the routines) will be similar to the formal procedures.

When MA routines become taken-for-granted assumptions about the way things are, they become institutionalized (stable). Thus, accounting categories and meanings are implemented to make sense of organizational actions (Scapens 1994). They become the rules and values that reflect organizational activities. As a result, these institutionalized routines become similar to an informal convention among the organizational members on how they must undertake their activities. They become components of the institutions of the organization (Abdul Khalid 2000). In doing so, these accounting routines become an inherent aspect of the MAS; they will influence organizational action and become somewhat resistant to change (Burns and Scapens 2000).

3. Stability and Resistance to Change

Only a few attempts have been made to explain the stability of and resistance to accounting system change (e.g. Granlund 2001; Kasim and Aziah 2004; Siti-Nabiha and Scapens 2005; Lukka 2007). However, accounting routines are frequently enacted and re-enacted accounting practices, in order to support organizational knowledge. Hence, they develop day-to-day decision-making and provide a degree of stability, and there would be potential resistance to change; then institutional change will take place (Burns 1996). Institutionalized rules and routines (as in the final process in the B&S framework) reflect the stability of these rules and routines. It is essential not to consider stability and change as mutually exclusive processes. Rather, there are certain elements of stability within the process of change and vice versa. Thus, change will be necessary if things are stable (Burns and Scapens 2000; Scapens 2006). Burns and Scapens assert that

“Stability and change can be simultaneously part of the same process. Stability and change may also be related in a further sense. For example, in the face of considerable environmental (e.g. economic and social) change, the stability of management accounting routines may be essential for maintaining an

understanding of organizational activity, and to make sense of one's own actions as well as the actions of others. Thus, stability in the face of change can be an instrumental feature of management accounting routines" (2000:22).

Burns and Scapens (2000) used an institutional framework not only for conceptualizing MAC but also for stressing the stability embodied in rule-based behavior and routine (i.e. organizational systems and practices). Hence the framework recognizes that there is no pure change or pure stability; rather, they take place simultaneously. In this analysis, Veblen introduced the idea of '*idle curiosity*', suggesting that new ways of thinking and doing may involve the human propensity through the process of innovation, leading to new technology (Veblen 1919). This idea is an impetus for change, and supports settled patterns of behavior. Accordingly, change and stability are not independent processes; both are simultaneously part of similar ongoing processes. Veblen also argues that, even though much of life is stable and predictable, being underpinned by habits, routines and institutions, within individual action there is an inherent curiosity which searches for alternatives to the status quo. Hence there is always a possibility of change (Veblen 1898; Veblen 1919; Burns and Scapens 2000).

Giddens (1984) points out that the relationship between continuity, change and stability is natural, wherein stability means continuity over time. Stability ensures the link between past, present and future. He affirms that stability in organizational life is anticipated to be mainly in tacit knowledge. Granlund states that the possibility of change, according to Giddens' approach, is inherent in every situation of social reproduction as a result of individuals' intentionality. Hence, "every analysis of (social) stability must also ipso facto be an account of change" (2001:143). He concludes that change, stability and resistance may be normal, regular and *mutually intertwined* aspects of organizational life. For example, a budgeting system is viewed as a political activity within any organization. What happens counted for influences of organizational members' about the origin of reality (Burchell *et al.* 1980). Thus, the role of resistance powers is drawn upon to change the conditions of interaction (Giddens 1984; Macintosh and Scapens 1990). This reflects the dialectic of control, a mutual correlation of exercising power (Giddens 1979). As mentioned before, the two-way pursuit of power is, in stability and change, manifested and exercised in several ways (Scapens and Roberts 1993).

Scapens and Burns (2000) argue that the use of hierarchical power alone cannot ensure the successful implementation of a new system. Those implementing the system are not

powerless. They have power in the sense that they are the ones who will execute the system. However, in the absence of an appropriate monitoring system, or if the new rules are implemented based on the support and resources of parties who resist the new system, the organizational actors may be able to amend the system in accordance with their existing institutions (Scapens and Roberts 1993). Thus, power does not rest solely in the hands of top management; subordinates also have power to resist the new system or amend it in accordance with their preferences. In this light, Burns and Scapens (2000) classify the resistance to accounting change into three categories: (1) Formal and overt resistance, which occurs when the organizational members do not want to apply the new system and declare so overtly as a result of heterogeneity of interests; (2) a lack of capability, which happens when members do not have the ability to implement the change as a result of lack of knowledge, experience and trust; and (3) mental allegiance to the (old) system, or to particular ways of thinking and doing embodied in existing routines and institutions.

3.6. Power and Politics Mobilization

Contextualists (and Processualists) believe that power and politics can play a key role in the process of organizational change (Pettigrew 1987; Burnes 2000). This is a crucial point of departure between them and the proponents of the planned approach. In commenting on the failure to incorporate the political and social nature of change into the conventional and more prescriptive literature on change, some authors affirm that this 'aversion' to considering power and politics has confined the understanding of change and hindered our ability to manage it effectively (see, Wilson 1992; Pettigrew and Whipp 1993; Dawson 1994; Burnes 1996; 2000; Hardy 1996; Yazdifar 2004). As Hardy asserts,

"power is an integral part of strategic change, regardless of whether the organization is a political cauldron of conflicting interests and power is a way to combat resistance to strategic intentions, or whether it is united by common goals and power is required to facilitate collaborative action" (1996:S6).

Both Dillard *et al*'s framework and Burns and Scapens' framework are drawing on the ST assumptions, which include the domination dimension as one of its key assumptions. In this way, the concept of power has been related to organizational change, both at the agent and structural levels. However, power is also an appropriate tool to analyze stability and change in organizational arrangements. In fact, organizational arrangements are orders of domination (Arts and Tatenhove 2004). Thus, the domination dimension (as assumed in Giddens' ST) is similar to the power dimension in institutional theory. Therefore, the power dimension is central to both OIE and NIS theory.

OIE stresses the importance of power and politics for shaping organizational on-going processes (at organizational level) (Van de Ven 1993), while NIS considers power and politics in terms of the pressures (isomorphism drivers) exerted on organizations by 'rationalized myths' (institutions) within society (Collier 2001). In doing so, both theories involve power and politics mobilization as a primary focus of the analysis (Yazdifar *et al.* 2006). Under both perspectives, organizational decision-making can largely be considered a function of exercising power which serves the interests of the minority, rather than a function of markets and efficiency (Hopwood 1987).

3.6.1. The Definition of and Distinction between Power and Politics

The organizational change literature emphasizes the significance of power and politics in organizational change, and suggests that, in order to understand what makes an organization 'tick', how decisions are made, why resources are allocated in a certain way and why particular changes are implemented while others are not, it is necessary to comprehend the possession and exercise of power and politics over/within that organization (see Pfeffer 1981; 1982; 1992). The influence of power on organizational management and its implications for change have been viewed from many different angles. Some authors highlight this influence in terms of its impact on organizational structure, while others highlight dominance over other key organizational process driving factors (Yazdifar *et al.* 2006). It's worth mentioning here that the MA literature contains very little on power and politics, and their interrelationship with MAC processes (see Burns 2000; Yazdifar 2004).

Power dimensions are present in all organizations; researchers can identify the sources of power and their implications and consequences by understanding how these dimensions are associated with the prevailing institutional logics. Institutional logics shape and construct the rules of change, and how these emerge, remain and fail in organizations. Social and organizational actors depend on their understandings of institutional logics of power to generate the conditions for the reproduction of prevailing change logics (Thornton and Ocasio 2008). Stinchcombe (2002) argues that, as power is theorized as a first-order construct in explaining change, independently of culture, two issues need to be addressed. First, power is produced in the course of action: it does not happen prior to the action that it explains. Second, the decision to use power is an intentional, strategic choice; so, it is not always possible for organizational actors to know the cultural framing or menus of available options preceding any action (Thornton and Ocasio 2008).

According to MA literature, power has been defined as the capacity to influence decisions, whereas politics is the actual process of exercising this influence (Clegg 1987; Robbins 1987). Hardy defines power as "a force that affects outcomes", while politics is "power in action" (1996:S3). Similarly, power is a means of achieving desired goals and effects, while politics is the practical domain of power in action (Buchanan and Badham 1999). Accordingly, politics is viewed as the exercising of power (Pfeffer 1981). Politics describes the attempts of people in organizations to gain support for or against policies, rules, goals or other decisions where the outcomes will have some effect on them (Burnes 2004). These definitions allow to examine the role of power from the dynamic view in order to achieve outcomes that could not be attained separately (Knights and Morgan 1991). Hence, power become a key facilitator of change (Pettigrew and McNulty 1995). In this regard, Pfeffer argues that,

"If power is a force, a store of potential influence through which events can be affected, politics involves those activities or behaviours through which power is developed and used in organizational settings. Organizational politics involves those activities taken within organizations to acquire, develop and use power and other resources to obtain one's preferred outcomes in a situation in which there is uncertainty or dissensus about choices" (1981:7).

The fundamental ideas and debates in institutional theory (OIE and NIS) can be settled in explicit power terms. Basically, the argument in institutional theory that considers structures and actions can be expressed as the power of 'structures' against the power of 'agents' (Oliveira 2010). Drory and Romm (1988) explain that power and politics are regularly occupied interchangeably and the difference between them has never been fully settled. Thus, the concept of power should be distinguished from authority (Yazdifar 2004). Robbins distinguishes between authority and power as follows:

[...] we defined authority as the right to act, or command others to act, toward the attainment of organizational goals. Its unique characteristic, we said, was that this right had legitimacy based on the authority figure's position in the organization. Authority goes with job [...]. When we use the term power we mean an individual's capacity to influence decisions [...] the ability to influence based on an individual's legitimate position can affect decisions, but one does not require authority to have such influence (1987:186)⁵².

Accordingly, any debate about the interaction between organizations and institutional environment as well as the encoding and enacting of rules and routines needs to be located amidst relations of power, although power is implicit rather than explicit in much of the institutional literature. Hence, politics could represent an alternative to current organizational

⁵² Robbins (1987:187), in supporting his opinion, provides as an example the Secretary to the Executive Director, who may have a great deal of power, by virtue of his/her ability to influence the flow of information and people to their bosses, but has very little actual authority. Although this secretary has a lowly position in the organizational structure, he/she is very close to the power core. Hence, he/she can influence decisions because he/she has enough power from what is heard (see also Yazdifar 2004).

rules. Power can provide the energy for strategic change as well as accounting change. Without it, we face strategic paralysis because we lack a mechanism with which to make change happen (Hardy 1996). Baum asserts that

“[Power is the ability of] different parties to achieve something together they could not accomplish individually. This power governs a politics concerned with creating new possibilities in a world where resources may be scarce but some interests may be joined and new resources created. This is win-win politics: victory is only collective, and one party's loss defeats all” (1989:195).

This study examines the role of power and politics in MAC as part of the theoretical framework. It sheds light on the potential dynamics of powers (or pressures) by different actors from outside (i.e. NIS) and inside (i.e. OIE) the JCO.

3.6.2. Power and Politics in NIS Approach

NIS stresses the significance of extra-organizational pressures on organizational change and enables a consideration of power factors as they influence the organization (Collier 2001). This concern with the role of power reflects the view expressed by Powell (1991:194) that NIS theory ‘portrays organizations too passively and depicts environments as overly constraining’. Thus, power can be viewed as a by-product of legitimating processes within the environment (Collier 2001). The power of organizations arises both from the need for legitimation and from isomorphic processes (*ibid.*). Organizations depend, to a greater or lesser extent, on support from the environment for their survival and continued operation. They require the support of government where their operations are regulated. Organizations are also reliant on the acquisition of resources to support purposive action. Therefore, the role of the State, especially through legitimation processes, is a powerful one, and it is in public sector organizations that this is most evident (*ibid.*).

Furthermore, it is significant to emphasize that the three mechanisms of institutional isomorphism (mimetic, coercive and normative pressures, as proposed by DiMaggio and Powell 1983) represent the dimensions of extra-organizational powers practiced on organizations. Mizruchi and Fein (1999) stated that researchers drawing on DiMaggio and Powell (1983) tended to focus only on mimetic isomorphism, neglecting the coercive and normative pressures. However, DiMaggio and Powell declared that it is necessary to “place interests and power on the institutional agenda” (1991:27). Institutionalization, as an outcome, places organizational practices and characteristics beyond the achieving of interests and politics (Dillard *et al.* 2004). Thus, NIS has neglected the role of power and politics because it

focuses on institutionalization as an outcome rather than a process (Zucker 1987; DiMaggio 1988; Abernethy and Chua 1996).

By contrast, Dillard *et al.* (2004) devised a framework through which institutionalization as a process recognizes the political nature of the process that reflects the relative power of organized interests and the actors who mobilize around them. It supposes that the legitimate norms and practices within the environment tend to be strongly influenced by powerful (dominant) coalitions and represent the macro context for resource allocation (see, Clegg 1989; Dillard *et al.* 2004). The dominant coalition has been defined as the 'organizational frame of reference' (see Shrivastava and Schneider 1984), which serves to make sense of and elucidate events, providing the reason for being, as well as an external legitimation of the organization (Collier 2001). According to Clegg (1989), what becomes institutionalized depends specifically on the power of the organizational actors' translation and utilization of societal expectations. The success of an institutionalization scheme and the structure that the resulting institution takes rely on "the relative power of the actors who support, oppose, or otherwise strive to influence it" (DiMaggio 1988:13). A major element of institutionalization is an on-going outcome of the political efforts of actors to realize their ends (Dillard *et al.* 2004).

By recognizing the fame of power, special interests, and the political nature of the social context, the status quo may be more clearly understood and analytically questioned (Dillard *et al.* 2004). Clegg asserts that a theory of power should recognize that "power necessarily involves reciprocity because it is always constituted within a relational universe of meaning" (1989:188-9). The articulation of the interests of the powerful groups must be reproduced before the existing power structures are reshaped (duality of structure). This reproduction process is part of the recursive process of institutionalization representing a significant component of power that is necessary in understanding changes in the institutionalization process (Dillard *et al.* 2004). Fincham (1992) introduces a proposal for understanding the influence and effects of power at three levels. In his proposal, institutional power depends on an external legal or regulatory base from which power derives. Organizational power is hierarchical, based on organizational structure with its external and/or internal power base, supported by a range of rewards and sanctions. Processual power consists of the micro-politics of coalition formation, frequently represented in cultures or coalitions.

Consequently, power dependencies and capacity for action are essential but insufficient conditions for organizational change. By themselves they will not lead to change, but they can enable or constrain it (Ma and Tayles 2009). Hence, power dependencies either enable or restrain radical organizational change precipitated by value commitment. Prevailing patterns of power dependency not only influence organizational change, but also are influenced by resources and capacity for action (Chizema and Buck 2006). The critical point is that shifts in power dependencies, whether brought about by environmental factors or institutional pressures, will produce radical change only if the dominant coalition shows the weaknesses of existing template arrangements and is aware of potential alternatives (*ibid.*). However, NIS focuses on extra-organizational power and disregards the relations of power within organizations. The intra-organizational power is the focus of OIE. Thus, the focus of NIS has currently shifted “from the study of fields as relatively static and predictable units of analysis to the study of fields as arenas of power dependencies and strategic interactions” (Hensmans 2003:356).

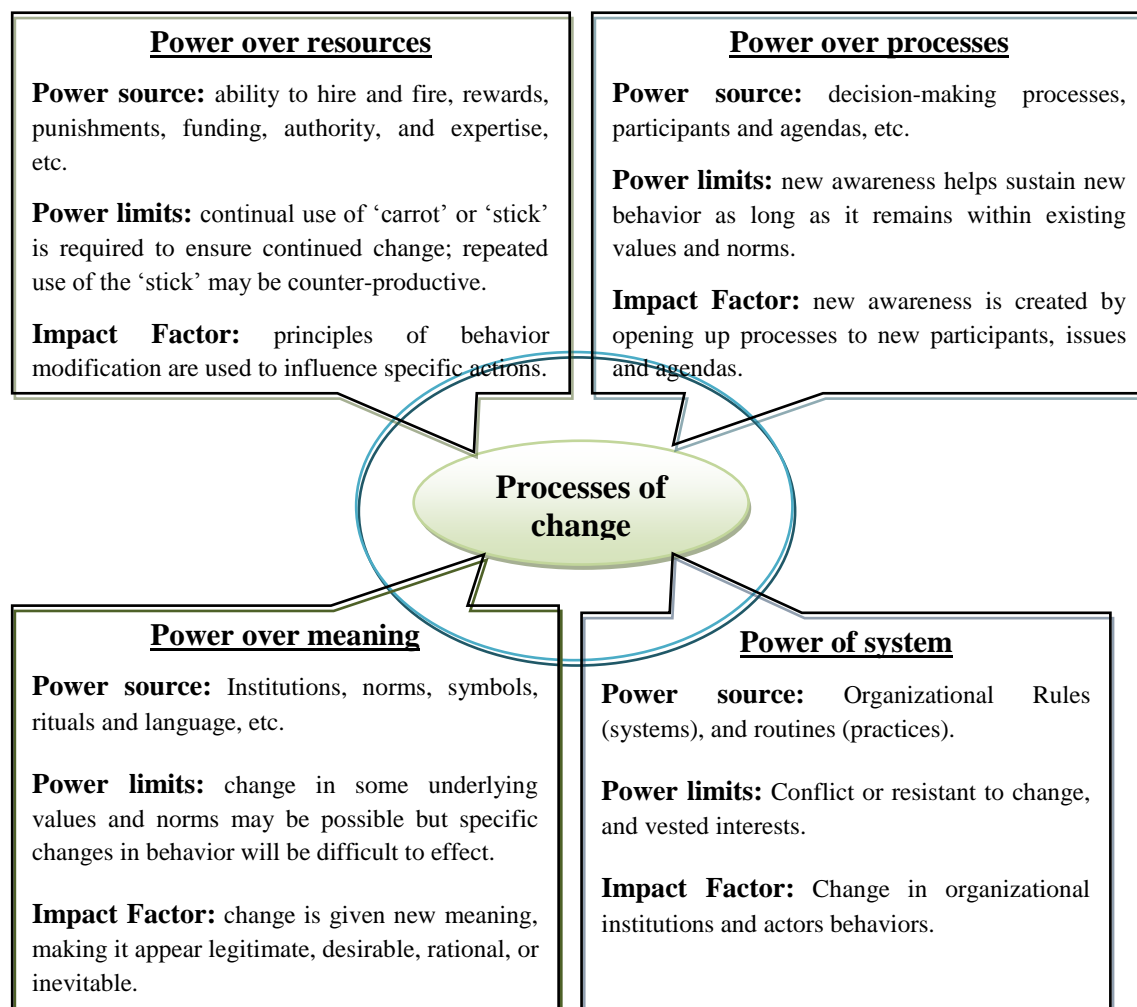
3.6.3. Power and Politics in OIE Approach

The relation between OIE and intra-organizational power is multifarious. Mainstream OIE argues that existing institutions have the power to form the behavior and beliefs of institutional actors and to stabilize the institutional context (Oliveira 2010). Burns affirms that power and politics are integral “to any OIE-grounded explanation of life’s ongoing processes - i.e. part of OIE’s core methodological underpinnings” (2000:571). Some authors argue that organizational actors vary in their ability to influence organizational change because different actors have different powers to effect or resist change. Hence dimensions of power can be used to enable or constrain the prevailing institutions (see, Covalski and Dirsmith 1988a; Chizema and Buck 2006; Ma and Tayles 2009). A good number of OIE researchers have examined the relationships between internal power struggles, conflicts (or resistance), and institutional change (see, Burns 2000; Siti-Nabiha and Scapens 2005; Ribeiro and Scapens 2006; Yazdifar *et al.* 2006; Robalo 2007; Oliveira 2010); and they have come to a conclusion that Burns and Scapens’ (2000) framework based on OIE has been particularly helpful in studies where power and politics are central.

The role of power and politics can be manifested in different stages of the process. For instance, power can be viewed in the enacting of rules and routines, when certain powerful actors of the organization exercise their control over key resources to introduce new

organizational rules. Besides, power that existed in another part of the organization may be mobilized to resist such new organizational rules. Also, power can exist in the (re-)enacting and reproduction of rules and routines, where accounting practices, for example, serve a ceremonial role which preserves vested interests and restricts instrumental change. Furthermore, power could be embedded in the institutionalization and encoding of rules and routines and their following (re-) enactment as unquestioned ways of thinking and doing, which shapes the actions and thoughts of members of the organization, generates organizational stability and embodies organizational know-how (Burns and Scapens 2000). In this vein, Hardy (1996) developed a new model involving the dimensions of power, drawing on pioneering work by Lukes (1974). Hardy's model of power mobilization is helpful to clarify the dynamics of the processes of accounting change within the organization (Burns 2000). Hardy classifies power dynamics into four dimensions (see figure 3.12), which have been explained in the following subsections in detail.

Figure (3-12) Power Mobilization Dimensions Model



(Source: Adapted from Hardy, 1996: S7)

3.6.3.1. Power over Resources

This can be described as the ability to get others to do what you want them to, if necessary against their will. Hence it focuses basically on the relation between the capability of the power and the control of scarce resources used to influence behavior in the face of resistance and opposition (Lukes 1974). Accordingly, power is practiced by actors to modify or influence the behavior of others and their decisions, to achieve the desired outcomes through the deployment or constraint of key resources on which they depend. These key resources can incorporate “information, expertise, political access, creditability, stature and prestige, access to higher echelon members, control of money, rewards and sanctions” (Hardy 1996: S7). This dimension of power seeks to amend actor behavior. It has only a limited impact since it is task-oriented and makes continual use of ‘the carrot or stick’ persuasion to ensure continued change. Furthermore, the excessive use of coercion can generate a backlash by the people over whom power is exercised (Hardy 1996).

3.6.3.2. Power over Processes

This is also called power over decision-making, including participants, processes and agenda. Hence, it inhabits organizational decision-making processes which include a variety of procedures (rules) and routines that may be implemented by powerful actors (managers) to influence outcomes by preventing subordinates from participating in decision-making (Hardy 1996). It sometimes includes non-decision-making processes, thus permitting the powerful actors to determine change outcomes from ‘behind the scenes’ through the use of political maneuvering (*ibid.*). Thus, the mobilization of power can be undertaken in order to prevent, reduce or increase subordinates’ participation in decision-making processes (*ibid.*). In other words, such power mobilization may take place ‘from behind the scenes’ and work both towards increasing and/or decreasing such participation of subordinates (Burns 2000). This type of power may produce more widespread and long-term changes than power over resources. While only behavior compatible with the institutions and norms of the underlying system will endure, if the new behavior conflicts with the underlying institutions and norms, it is most likely to fail (Hardy and Redivo 1994).

3.6.3.3. Power over Meaning

This can be used to prevent conflict from appearing in the first place, as a result of intervention by powerful actors from ‘behind the scenes’ (i.e. non-decision-making process) (Lukes 1974). Thus, this type of power is usually mobilized to shape actors’ perceptions,

cognitions and preferences, so that they accept the status quo because they cannot perceive any alternative (*ibid.*, and see also Hardy 1996). Hence, it may be employed to convince actors that the change should take place because it is considered desirable, rational and/or legitimate. Accordingly, “the study of power cannot be confined to observable conflict, to the outcomes of decisions or even to suppressed issues. It must also consider the question of political quiescence” (Hardy 1996:S8). Essentially, power over meaning can be related to societal and field mechanisms which are considered to perpetuate the status quo, although it can happen within the context of struggles at organizational level (see, Clegg 1979; Giddens 1979; Ranson *et al.* 1980; Clegg 1987; 1989). However, this dimension of power is not sufficient if new rules and routines do not agree with existing ways of thinking and institutions; hence new accounting procedures must work alongside other organizational routines and institutions already in place (Burns 2000; Yazdifar *et al.* 2006).

3.6.3.4. Power of the System

This is also called power of institutions. This dimension of power is embodied deeply within the organizational system (including accounting system). It contributes by helping the system to become taken for granted by everyone within an organization and hence is beyond the reach of tampering by organizational actors. This dimension of power lies in “the unconscious acceptance” of existing organizational values, cultures, traditions, and structures of given institutions, and it reflects all organizational members in its ‘web’ (Hardy 1996:S8). She argues that,

“Since it advantages or disadvantages individuals without being consciously mobilized, even those who profit from it find it difficult to change. This power is the backdrop against which all organizational actions and decisions take place. Since it is vested in the status quo, it is unlikely to lead to advantage in the absence of any countervailing power. [...] It is against this dimension of power that managers must employ the other three dimensions if they are to bring about strategic action” (1996:S8-9).

Power of the system can also reside in material conditions, including structural distributions of resources as well as available technologies of control and operation. These material conditions should be viewed as components of the ‘power embedded deep within the organizational system. (Ribeiro and Scapens 2006). Thus, Hardy argues that

“[...] change does not [...] occur in a vacuum - it takes place in a system in which a certain distribution of power is already entrenched. When managers attempt [...] change, they must use the first three dimensions of power to modify those parts of the existing system that inhibit the new behaviour necessary to support their initiatives. Strategic action typically hinges on the *mobilization* of all three dimensions” (1996:S9).

Power of the system is emphasized by Foucault (1979; 1980; 1982), who stresses the degree to which all individuals are limited in resisting the system (see also, Knights and Morgan 1991; Hardy 1996). Power of the system and the three dimensions of power are complementary elements for Burns and Scapens' framework⁵³; all of them together are necessary to bring about all aspects of processes of MAC. Even though all four dimensions of power are reproduced at all levels of organizational structure, the power of the system is more systemic than the other three dimensions and includes all organizational members in its 'web'. It is argued that these dimensions of power and the politics underpinning them may be both⁵⁴ key facilitators of and/or barriers to the process through which new accounting systems evolve and change (Foucault and Gordon 1980; Mingers 1992; Burns 2000; Yazdifar *et al.* 2006).

3.7. The Key Limitations of OIE and NIS approaches

The notion of MAC as a continuous process rather than a discrete movement from one position to another has implications for successful implementation. In assessing the success of a MAC, great care has to be taken and internal and external institutions related to the organization have to be considered (Scapens 2006). Thus, such external perspectives can be considered by NIS; in turn, internal perspectives are grounded in the OIE. However, OIE highlights internal institutions within the organization and pays less attention to the external institutions (Scapens 2006). Therefore, it is important when studying MAC to recognize that external institutions can be imperative in shaping MAPs (*ibid.*).

Organizational change literature criticizes the OIE in general because of OIE's lack of theory, and argue that argue OIE tends to be interpreted in holistic terms rather than as a rational choice framework (e.g., Williamson 1987; Rutherford 1995; 1996). As Rutherford (1996:1) argues, "OIE does not represent a single well-defined or unified body of thought, or methodology, or program of research". He further affirms: "I have not discovered within the OIE any approach or model that I could wholeheartedly adopt as my own" (1995: ix). The OIE is thus depicted as "descriptivist and anti-formalist, holist, behaviourist and collectivist"; hence, it rejects individualistic welfare criteria (Rutherford 1996:4). Furthermore, OIE has been criticized because its focus is primarily on the micro processes rather than the macro-

⁵³ It can be said that rules and routines in Burns and Scapens framework represent power of system.

⁵⁴ Employing a Foucauldian perspective affirms that the effects of power are not negative, but productive (Foucault and Gordon 1980). In the same way, Mingers (1992) stated explicitly that power is coercive, oppressive and constraining (power over), but also enabling, productive and empowering (power to).

level processes (Yazdifar 2004; Burns 2000). In short, OIE does not study MAC as the result of environmental pressures (*ibid.*).

As far as Burns and Scapens' framework is concerned with internal institutions - how they emerge and how they shape current actions, including processes of change (Busco *et al.* 2002) - and ignores external influences or pressures (i.e. the focus of NIS) that can contribute to shape new MA rules or routines. Burns and Scapens' framework does not explicitly reflect other internal issues or determinants of change (e.g. power and politics mobilization) (see Scapens 2006). Burns (2008) argues that such institutionalization cannot always be attained because of the conflict and resistance occurring over the new system, mainly if it challenges existing institutions and meanings. Therefore, it is essential to recognize the role of power and politics in the process of change. The framework also suffers from the same definitional ambiguity that has held back development in the study of routines across various disciplines (Burns 2008). According to the process of institutionalization, the framework focuses explicitly on the reproduction of MA routines rather than rules. Dillard *et al.* (2004)⁵⁵ appreciate the fundamental use of the Burns and Scapens framework; however, they see their framework as a narrow view that fails to consider the relations between the organizational practices, the organizational field, and the potential influences of society and other influential actors.

Similarly, NIS is not without flaws. The organizational change literature would make the opposite set of criticisms of the OIE to those applied to the NIS. NIS has not generally been considered a theory of organizational change but rather as an explanation of the resemblance (i.e. isomorphism) and stability of organizational arrangements within the organizational field (Greenwood and Hinings 1996). NIS is weak in analyzing the internal processes of organizational change (*ibid.*); and "the theory is silent on why some organizations adopt radical change whereas others do not, despite experiencing the same institutional pressures" (*ibid.*: 1023). Nevertheless, NIS research has focused on convergent change processes, and has tended to downplay the implications of power, agency and interest in the implementation of externally imposed practices (Scott 2001; Greenwood and Suddaby 2006; Cruz *et al.* 2009). Cruz *et al.* (2009) argue that NIS theorists have recently been criticized for arguing that legitimacy (or institutional) and technical (or efficiency) pressures are polar opposites and

⁵⁵ Dillard *et al.* (2004) further argue that the Burns and Scapens framework lacks analysis of the social, political, and economic issues that define the organizational context and creates concerns in identifying the influences responsible for organizational practices.

cannot confront organizations simultaneously. As they are failed to study the processes whereby institutions are created, transposed and/or decomposed, neglecting power, agency and interest at the organizational level (see also, Scott 2001; Hopper and Major 2007; Seo and Creed 2002; Dillard *et al.* 2004; Collier 2001).

According to Powell (1991:194), NIS “portrays organizations too passively and depicts environments as overly constraining”. Hence, institutionalization is a constraining process that forces organizations within a specific field to resemble other organizations that face the same constraints (Powell 1991). Thus, NIS researchers (including Dillard *et al.*’s framework) tackle institutionalization as a ‘black box at the organizational level’ without concrete cognitive micro-level foundations (Zucker 1991:105). In this light, Scott asserts that the focus of the NIS is on “examining the effects of institutional environments on organizational structures rather than with examining the internal generation of institutionalized forms within organizations” (1991:165). As a result, NIS supposes that organizational practices designed to ensure external legitimacy are only symbolic and constantly decoupled from internal operating systems (Abernethy and Chua 1996; Yazdifar *et al.* 2008). NIS considers the change at an extra-organizational level and pays less attention to change at an intra-organizational level. Nevertheless, NIS can produce insights and ideas that, when elaborated, provide a model of change of the relations between organizational context and intra-organizational dynamics (Greenwood and Hinings 1996).

In the light of the above discussion, both theories (OIE and NIS) are not without flaws and criticisms. The crux of these criticisms is that, although there is considerable overlapping between OIE and NIS, the latter tends to assume ‘institutions as given’, while the former deals more directly with the emergence, change and stability of institutions over time. Thus, NIS tends to concentrate more on macro institutions while OIE focuses more closely on micro institutions within organizations (Carruthers 1995; Abernethy and Chua 1996). Accordingly, NIS debates are insufficient to adequately explain all organizational change (Scott 1987) and they must be complemented by other perspectives. On the other hand, OIE pays inadequate attention to environmental pressures. Accordingly, the integration of both theories may be able to overcome these flaws and they may complement each other (Yazdifar 2004). Fligstein (1985) argues that no single theory can completely explain social complexity, and proposes that different theoretical perspectives are useful for understanding organizational change. Therefore, this study has further adopted ‘power mobilization theory’ to avoid the

shortcomings of both theories. By doing so, this study develops a new contextual framework based on theoretical integration of OIE, NIS and power mobilization theory to explain the processes of change inside and outside the JCO.

3.8. The Interrelationships between Institutional, Power and Structuration

The proposed framework recognizes the interrelationships among the different theoretical perspectives as well as across three levels of social organization. The changes in MA were supposed and maintained by associated changes in the legitimating grounds, representational schemes and domination perspectives that are grounded in the ST, and cannot be sufficiently understood without considering these three interrelated perspectives as well as the influences from the organizational field and the societal level (see Dillard *et al.* 2004). Along with ST, Giddens (1984) suggests that structural properties can be usefully divided into *rules* and *resources (power)*, where rules are related to both the constitution of meaning and sanctions (Englund *et al.* 2011). Namely, three dimensions of structures are identified: (i) signification (rules); (ii) legitimation (rules); and (iii) domination (power) (as was displayed in Figure 3-8). The core notion of ST is that structures and systems are recursively interrelated through the *duality of structure (ibid.)*. Table (3.2) summarizes the fundamental building blocks of ST developed by Englund *et al.* (2011) in the light of the pioneering work of Giddens (1976; 1979; 1984).

Table (3-2) Key Elements of Structuration Theory (ST)

Core Notions	Key Aspects
Structure and System	<i>Structures</i> and <i>systems</i> are treated as distinctive concepts. Social systems are constituted of situated practices, while structures are virtual and out of time and space existing only as they are recursively involved in the (re)production of systems
Structure as Rules and Resources	Structures may be analyzed as sets of <i>rules</i> and <i>resources</i> , organized as reproduced properties of social systems.
Duality of Structure	Structuration processes are recursive in that <i>the duality of structure</i> suggests that structure works as both the medium for, and outcome of, social systems. The duality of structure thus connects the reproduction of systems across time-space with the production of situated interactions.
Knowledgeable Actors	Agents are treated as knowledgeable, who know a great deal about the workings of social systems by virtue of their participation in such systems. The stocks of knowledge which actors draw upon in the (re)production of interaction are embedded in actors' unconscious motives, their practical consciousness of how to go on, and in their discursive consciousness of such practices.
Power as an Integral Element of Social Life	Human actions are logically connected to their transformative capacity, whereby actors may make a difference. Consequently, apart from their meaningful and normative content, social interactions always involve power.
Structuration	<i>Structuration</i> refers to the 'ongoingness' (<i>durée</i>) of social systems, involving both continuity and change. To study structuration is to study the <i>conditions</i> governing their (re)production.

(Source: Englund *et al.* 2011:31)

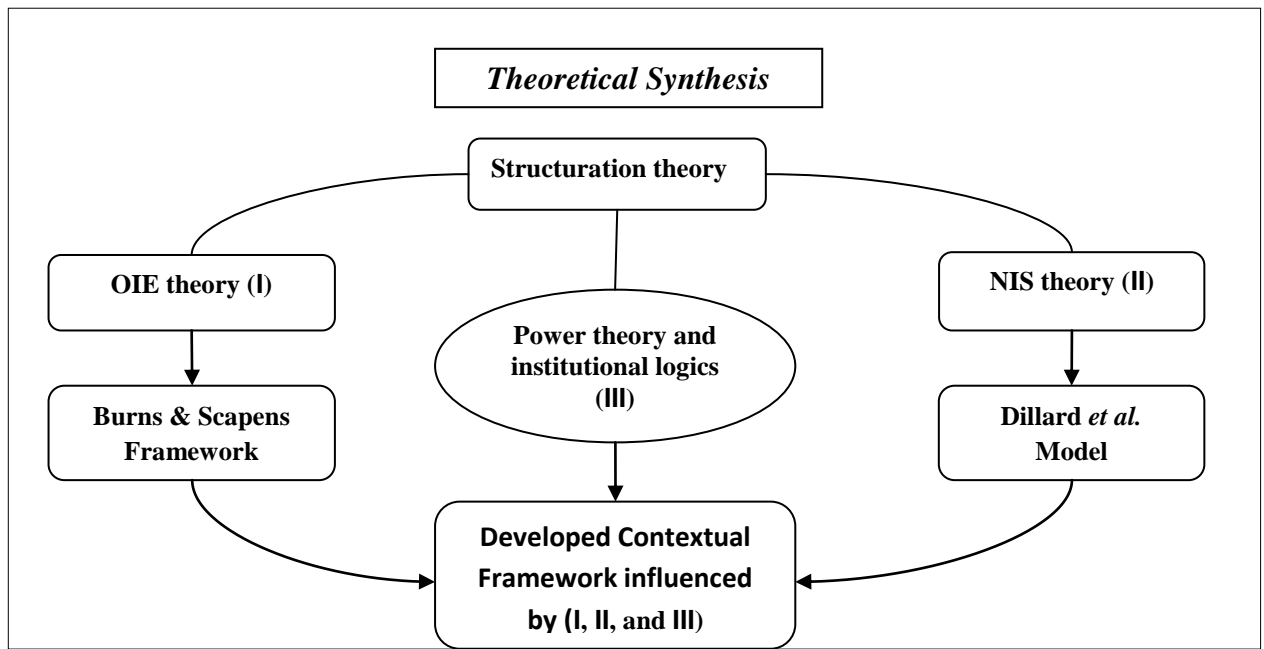
Table (3.2) shows that there are many similarities and interrelationships between ST, institutional theory and power theory. However all have limitations as well. Perceiving the limitations of institutional theory and ST, as the latter lacks attention to the history, MA researchers find it more appropriate to integrate institutional theory as well as power theory with ST. For instance, Granlund (2001) incorporated ST and institutional theory to study the nature and sources of the stability of MAPs or systems. Seal (2003) integrated institutional theory and ST to explain local authority budgeting practices whilst Conrad and Guven Uslu (2011) used conceptions from ST and institutional theory to scrutinize the implementation of payment by results and its implications for organizational change.

Some researchers also used notions of ST to develop OIE framework in order to understand MAC at micro level. Hardy (1996) presents a model that describes four dimensions of power which enable and constrain organizational change. These four dimensions, as discussed in section (3.6.3), are grounded in dominance structure in accordance with Giddens' ST. Similarly, Barley and Tolbert (1997) combined institutional theory and ST to develop a

recursive model of organizational change. This framework particularly extends the duality between institutions (structure) and action (agency) in accordance with ST, by locating them within their historical contexts. Accordingly, Burns and Scapens (2000) have used a modified version of Barley and Tolbert's (1997) model intentionally to study MAC at organizational level.

On the other hand, some researchers have used ST to develop NIS framework to examine MASs at macro level. DiMaggio and Powell (1983) argue that the evaluation of the initiation and maintenance of power relationships (domination structures) must assist with the realization of these relationships on two sides: (1) the ability to identify norms and standards that form and lead behavior (legitimation structures); and (2) the ability to restrict appropriate forms of structure and policy (signification structures) that become taken-for-granted (institutionalized) (see also, Dillard *et al.* 2004). Clegg (1989:188-9) argues that a theory of power must recognize that "power necessarily involves reciprocity because it is always constituted within a relational universe of meaning". The communication of the interests of powerful groups must be reproduced before the existing power structures are reconstituted (duality of structure). This reproduction process is part of the recursive process of institutionalization representing a significant component of power that is necessary for understanding changes in the institutionalization process (Dillard *et al.* 2004).

Extending these ideas, Dillard *et al.* (2004) have developed a multilevel framework of the dynamics associated with the institutionalization process, which integrates ST with institutional theory to theorize change at multiple levels i.e. societal, field, and organizational level. Dillard *et al.*'s (2004) framework shows the potential to enable researchers to study the institutionalization of MAPs as a process, considering the social, political and economic aspects that make up the context in which an organization operates (Moore 2011). Dillard *et al.* (2004) suppose that meaningful change is more likely to be motivated and better understood where the societal context can be explicated and linked to social action through the various levels of the social order (*ibid.*). At organizational level, it is helpful to integrate the dynamics of the Burns and Scapens framework into Dillard *et al.*'s framework. Thus, by drawing on the theoretical synthesis between Dillard *et al.*'s framework, Burns and Scapens' framework and Hardy's model of power mobilization theory, a contextual framework can be constructed to explain MAC at multiple levels, as in the JCO (see figure 3.13).

Figure (3-13) Modelling of Management Accounting in the Theoretically Oriented Literature

(Source: Author)

The foundation laid in this section is that ST provides a meta-theoretical representation of the key dynamics of institutional theory and that it not only illustrates the primary context dimension but also presents the dynamics for institutional change (Dillard *et al.* 2004). Through the vehicle of the institution and structuration, “institutionalists provide the possibility of a contextual and culturally sensitive account. It is an account in which the actions of institutions are not reducible to the universal rational calculations of individuals found within them, but are embedded within, and constrained by, a local institutional culture of social relations, tacit rules and formal regulations” (MacLeod 2004:62). Burns points out that institutional “theories utilised in the future will likely represent a ‘hybrid’ framework which draws from insights of various institutional (and non-institutional) perspectives” (2001:35). In doing so, the institutional theory can offer guidance on organizational change, first by providing a convincing definition of radical (as opposed to convergent) change and, second, by signaling the contextual dynamics that precipitate the need for organizational adaptation (Greenwood and Hinings 1996). Consequently, the following section explains the integrated ‘contextual’ framework in more detail.

3.9. The Contextual Framework for Understanding MAC

The main aim of this framework is to explain how MAC can be conceptualized from different perspectives. Dawson (1994) affirms that “Although there is a growing body of literature in

the area of strategic change, a gap remains for the development of a new theoretical framework for understanding major organizational transition at the operational level" (1994:12). Similarly, Pettigrew (1987:655) describes the relevant framework to study organizational change as well as MAC as "historical, processual and contextual in character". He also argues that "An approach that offers both multilevel or vertical analysis and processual, or horizontal, analysis is said to be contextualist in character" (1987:94). Contextualists thus believe that change as phenomena can happen through the interaction between institutional pressures (or power), and rules and routines (see Tsamenyi *et al.* 2006).

In this regard, Scott (1995) describes the multilevel analysis of institutional change ranging from the broadest, worldwide perspective to the level of a subunit of an organization. Consequently, the contextual framework of the study (as set out in the figure 3-14) adopts Dillard *et al.*'s (2004) model, which recognizes that these multiple levels of the institutionalization process move in a recursively cascading manner by hierarchically linking the wider institutional influences of the political and economic factors level (PE) with the organizational level, through the organizational field level (OF). Moreover, this framework examines the impact of external, as well as internal, factors on MA processes within a specific organization.

Dillard *et al.* (2004) explain these wider institutional influences on organizational change by recognizing three levels of institutions. At societal level (PE), the most general norms and values (CPE), such as laws, principles and practices, are established and influenced by the existing distribution of power in the society. This macro set of norms and principles shapes the organizational field level criteria (COF), which is a function of the societal level criteria (CPE). As a result, the organizational field practices (POF) are influenced by the organizational field criteria (i.e. isomorphism pressures) which were previously formed by the PE principles. The contextual framework adopts isomorphism drivers in equivalence with organizational field criteria (COF). The COF consist of professional groups, industry groups, government, etc, that might be inhabited by individual organizations; the final level is the organization itself (Hopper and Major 2007).

Whereas Dillard *et al.* consider multilevel institutions necessary for explaining organizational change, as these "macro institutions" occupy a prominent place in the NIS (Hopper and Major 2007). The process of institutionalization as indicated by Dillard *et al.*'s model is deemed

recursive throughout all levels. However, this model is still studying the processes of change at organizational level as a 'black box', without going into their details. Consequently, at the organizational level, the contextual framework (see Figure 3-14) adopts Burns and Scapens' (2000) framework, which supposes that the institutional realm and the realm of action are linked by rules and routines. Hence, it focuses on "micro institutions" inside the organization. Thus, the institutional realm represents the ways of thinking and the underlying assumptions that are taken for granted by the organizational actors before the process of change takes place, while the realm of action comprises the actions that are carried out by the organizational actors (Wanderley *et al.* 2011). It is important to emphasize that the processual approach, as suggested by Dawson (1994), is parallel to the process of institutionalization within the Burns and Scapens framework; and both approaches seek to interpret MAC as processes.

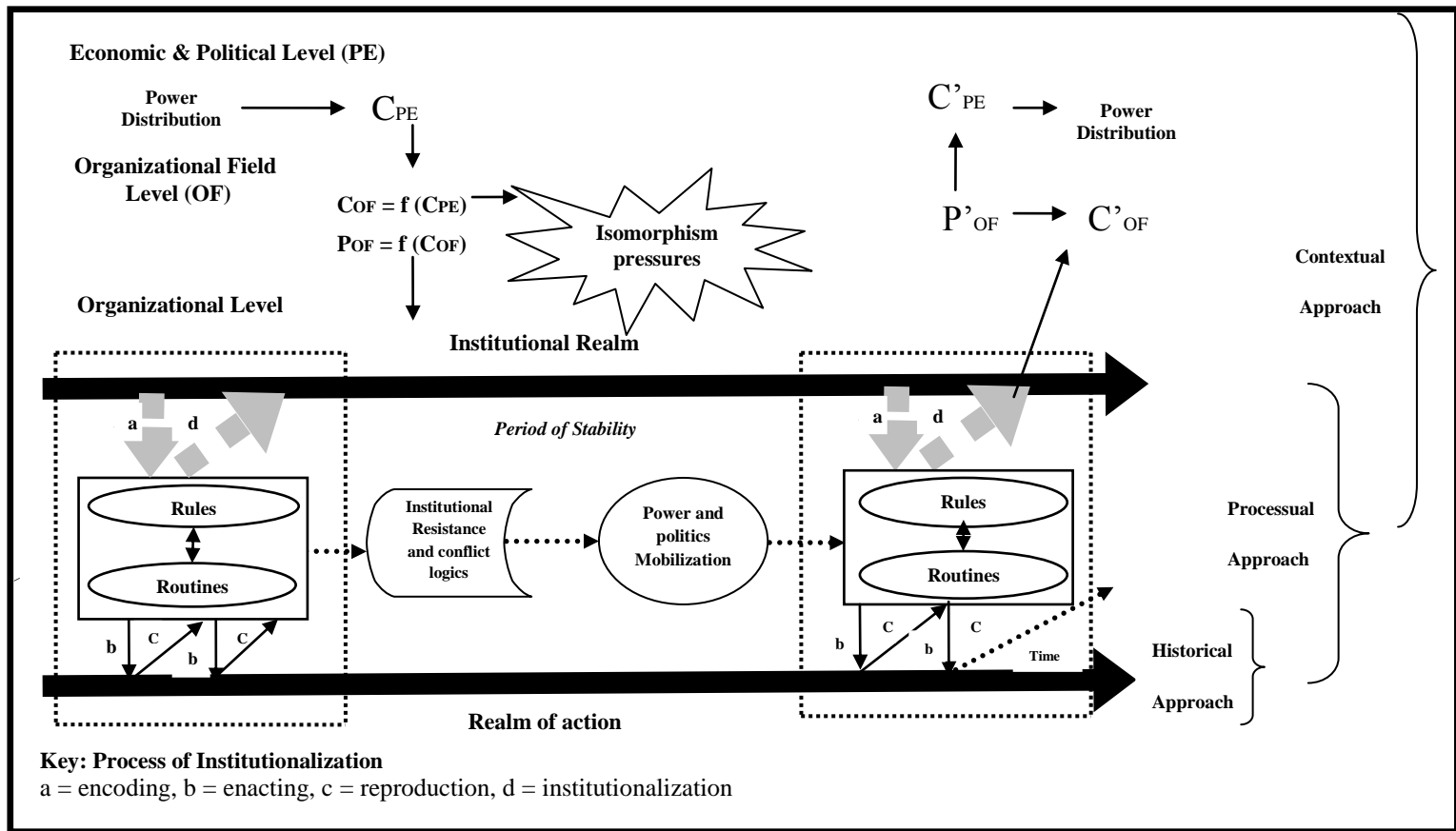
Burns and Scapens' framework has its roots in the OIE (Scapens 2006), rather than the more comprehensive institutional theory framework that underpins the contextual framework. However, Burns and Scapens' formulations are generally not inconsistent with this formulation at the organizational level (Dillard *et al.* 2004), although the ability to understand and induce change is largely limited to impact factors at the organizational level. The actual process of change at organizational level starts with the accumulation of institutional contradictions resulting from external environment (PE and OF) pressures, as well as organizational practices and their underlying assumptions, such as institutional resistance or conflict among organizational actors. Thereafter in this framework (as indicated in figure 3-14), organizational factors are represented by power and politics dimensions mobilized by organizational actors after the process of change or resistance (or any human action) takes place. These above factors show that within this framework, organizational factors can play a vital role in the process of MAC, in either triggering or constraining institutional resistance or contradictory institutions.

In this regard, the framework has adopted Hardy's (1996) model, which comprises four dimensions of institutional power: power over resources, processes, meanings, and systems. The first three dimensions are represented partially by organizational actors, while the latter is more comprehensive, encompassing all organizational actors in the web. These power dimensions may trigger and enable human praxis (e.g. collective action, actor mobilization, and potential change agents) to create the conditions for institutional change to take place,

because the resistance (as misaligned interests or mental allegiance to the old work) will retard institutional change (Seo and Creed 2002). This change will be implemented within the organization through a new set of rules and routines, which will be institutionalized (stability). In other words, they will be taken for granted by the majority of the organizational actors (Wanderley *et al.* 2011), in consistent with the process of institutionalization.

Following the process of institutionalization, the new institutionalized rules or practices influence the set of normative practices (POF) and criteria (COF) at the organizational field level by reinforcing, revising or eliminating existing practices (Dillard *et al.* 2004). Changes in organizational field practices (P'OF) and criteria (C'OF) usually influence the political and economic system criteria (C'PE). This means that new political and economic criteria defy the present coalition of power at the economic and political levels. Consequently, the social processes of institutionalization, de-institutionalization, or re-institutionalization could be generated by choosing significant norms, values and institutions. In this manner, such new accounting practices become institutionalized through the induction of these social and political processes, and cannot be justified merely through economic rationalities (Dillard *et al.* 2004; Wickramasinghe and Alawattage 2007). Nevertheless, such process of institutionalization takes place only if the 'axes of power' are manifested.

Figure (3-14) Contextual Framework of Management Accounting Change



(Source: Author)

This recursive contextual framework is synonymous to that one developed by Dillard *et al.* (2004), which is influenced by the notion of duality of structure from the ST. This notion assumes that structures (institutions) provide recursive rules and resources that shape and inform human interaction (action) in terms of its signification, legitimization and domination. All the same, human agency may change these structures. Such changes might produce either conscious choices to act differently or the unintended outcomes of behavior (Stinchcombe 2002). As a result, this framework is supported by the notion of duality of structure and agency, which is a general framework of social action (Anthony 1965; 1979; 1984). Thus, institutions are the background for action but, conversely, may be recursively modified through the action of human agents (Seal *et al.* 1992). The process of institutionalization is thus inverted again and flows downwards through the three levels as described above, unfolding as acceptable and legitimate practices for organizations over time and space.

Although multilevel theories are necessarily complex, their complexity may yield important practical insights. Multilevel theories illuminate the context surrounding individual-level

processes, clarifying precisely when and where such processes are likely to occur within organizations. Also, multilevel theories identify the multi-level characteristics, behaviors, attitudes and perceptions that underlie and shape organizational-level systems and practices (Klein *et al.* 1999). In the same way, the present contextual framework represents a convergence around multiple themes suggested by both old and new institutionalism. Particularly, it offers an outstanding basis for an account of organizational change as it pays special attention to the link between organizational contexts and organizational actions and offers a more detailed account of the different interests and powers of human actors (see Ma and Tayles 2009). This framework particularly serves the purpose of explaining MAC as interpretive case-study. By developing a contextual framework, the study seeks to achieve further progress in institutional theory to tackle the above issues, and to provide a more holistic understanding of MAC.

3.10. The Contextual Framework Rationale

OIE theory has been criticized because it focused primarily on the organizational-level view taken by Burns and Scapens rather than the macro level. As a result, OIE use is limited in terms of recognizing upper levels of social, political and economic criteria that influence and identify the organizational context (Dillard *et al.* 2004). Further, it does not consider the factors that may influence the institutional change, including MAC. Conversely, NIS theory has been criticized because it focused on the extra-organizational level. In this regard, Greenwood and Hinings (1996:1023) believe that NIS “is weak in analyzing the internal dynamics of organizational change. As a consequence, the theory is silent on why some organizations adopt radical change whereas others do not, despite experiencing the same institutional pressures”. To overcome the limitations and flaws of each theory, this study combines them so that they complement each other and give better results.

Extending these ideas, the integration process between OIE and NIS is made possible by the use of Dillard *et al.*'s (2004) framework, which combines OIE and NIS. It is important to note the interaction between extra- and intra-organizational factors in the process of MAC. Thereafter, Dillard *et al.*'s (2004) framework can be utilized by improving the analysis of the influence of intra-organizational processes, such as how new accounting systems emerge. To avoid this limitation, Burns and Scapens' (2000) framework is integrated with Dillard *et al.*'s (2004) model. The rationale for this is that Burns and Scapens' (2000) framework introduces a more comprehensive and in-depth interpretation of the process of institutionalization of new

MAPs at the organizational level than Dillard *et al.*'s (2004) framework. Thereby, Burns and Scapens' (2000) framework is more helpful than Dillard *et al.*'s (2004) framework in explaining the process of institutionalization of new rules and routines at organizational level.

The combination of Dillard *et al.*'s (2004) framework and Burns and Scapens' (2000) framework is not inconsistent in with epistemological and ontological assumptions, because both frameworks exchange the same views about the world and human beings (Wanderley *et al.* 2011). Dillard *et al.* (2004:512) affirm that "Burns and Scapens' ideas could be integrated" into Dillard *et al.*'s (2004) framework at the organizational level. They also declare that "the framework provided by Burns and Scapens (2000) might be applied to describe the micro process taking place" (2004:533) within an organization. As a result, the integration between them can be implemented without any ontological and epistemological dilemmas.

Another aspect to be taken into consideration is that the institutional theorists have ignored the role of power and institutional resistance logics, which may influence the institutional change. Seo and Creed (2002) stated that institutional theory has a dilemma because it is unable to explain the role of agency and power in the process of organizational change; i.e. "When and how do actors actually decide to revise behavioural scripts when their actions and thoughts are constantly constrained by the existing institutional system?" (2002:224). Hence, to overcome the institutional theory dilemma, this study also adopts Hardy's (1996) framework to tease out the power influences over MAC. By doing so, the contextual framework includes a multilevel analysis of the dynamics associated with the institutionalization process. The framework represents continual, dynamic change and the significant influence (Dillard *et al.* 2004) of institutional factors in the MA processes. It may complement the existing institutional perspectives on MA, especially Burns and Scapens' (2000) framework.

3.11. Conclusions

Following the explanation of different institutional perspectives (NIS, OIE, and power theory), their underlying assumptions, dynamics, key criticisms and frameworks, and their interrelationship with structuration theory, and to avoid the limitations of each framework, this chapter concludes a new contextual framework based on the integration of the works of Dillard *et al.* (2004), Burns and Scapens (2000), and Hardy (1996) from one side, and Pettigrew (1987) and Dawson (1994) from another, which is helpful for conceptualizing

management accounting and organizational change. This has been done to avoid the flaws and shortcomings of each individual framework. The contextual framework explicitly recognizes the socio-economic and political nature of institutional change, and provides a basis for a more complete understanding of the dynamics involved in such an enacting, embedding and changing of organizational aspects and processes. Expanding the focus of the MA research-based institutional theory can provide a more inclusive representation of accounting as the object of institutional practices as well as a better articulation of the role of accounting in the institutionalization process (see Dillard *et al.* 2004). The framework also recognizes the organizational field level as an interactive part of a larger social system that must be considered when investigating the emergence, diffusion and implementation of accounting criteria and practices.

The contextual framework of MAC as well as this study (as manifested in chapters 5, 6 & 7), can serve MA researchers by giving them a common frame of reference. There has been a call to develop a new theoretical framework capable of supporting the understanding of the complex mishmash of interrelated factors at both extra- and intra-organizational levels that pressure MAPs to change (see Scapens 2006). This framework complements recent recommendations for 'bridge building' and methodological pluralism among the different debates and perspectives concerning institutional theory in MA research (Yazdifar 2004). However, this framework could be criticized on the grounds that it is over-schematized, and interrelated factors applied to the framework are unlikely to happen within a specific organization (Wanderley *et al.* 2011). Nevertheless, these allegations will not invalidate the contextual framework since it displays how it could be used flexibly in different aspects of organizational change. Hence it may be utilized in the dynamics of MAC in various contexts (*ibid.*).

It's worth mentioning that none of the previous frameworks alone would be able to explain all the dynamics of the process of MAC. However, by integrating these three frameworks, the 'contextual' framework provides a useful basis for understanding the process of institutionalization, embedding and de-institutionalization of MAPs. In doing so, each framework supplements the other without any ontological and epistemological issues. Thus, the contextual framework explains the institutionalization process of MA logics in the emerging institutional field by focusing on how human actions at multiple levels interact recursively to enable multiple logics to diffuse (Purdy and Gray 2009). Hence, it reveals how

field structure and dynamics shape the diffusion process (isomorphism), emphasizing the interaction of organizational actions and institutional pressures. In this way, new institutional logics are transmitted by actors and enacted as new organizational practices; they then become taken-for-granted working practices.

Along the same lines as Burns and Scapens, “It should be emphasized that this framework is not intended to provide operational constructs for empirical research and hypothesis testing. Rather, its purpose is to describe and explain analytical concepts, which can be used for interpretive case studies of management accounting change” (2000:9). Consequently, with the aim of applying the contextual framework-based institutional theory, a relevant research methodology and methods have to be adopted. Considering the methodological issues, chapter four discusses these choices, incorporating the research philosophy, paradigm and approach. In addition, it provides the rationale for selecting an interpretive case-study as the research strategy. Furthermore, it discusses how the empirical evidence has been collected and analyzed using the six steps of the research process, including triangulation of data collection and multiple sources of evidence (interviews, observations and documents).

CHAPTER FOUR: RESEARCH METHODOLOGY AND METHODS

4.1. Introduction

The main objective of this study is to explain the processes of management accounting change within the JCO after the introduction of NPM reforms. In order to achieve this objective, the relevant literature on management accounting and organizational change was reviewed in Chapter Two, and the theoretical ‘contextual’ framework underpinning this study was drawn in Chapter Three. Both Chapters Two and Three suggested the synthesis of three different institutional frameworks into one theoretical framework in order to provide a holistic view of processes of change by drawing on an interpretive case-study. Accordingly, the qualitative research in this study will take the form of an interpretive case-study to track differing paths of change and their effects over time (Brignall and Modell 2000). Accordingly, this chapter discusses the methodological issues related to the analysis carried out in this study, starting with the research philosophy and paradigm. The aim of this chapter is to elucidate the adopted research design, and to illustrate how the JCO case-study was conducted and the evidence gathered and analyzed. The findings will be discussed later, in Chapters Five to Seven. After this introduction, the chapter is structured as follows: 1) the appropriateness of the research philosophy and paradigm; 2) the discussion of the selected research approach and strategy, and why qualitative research methods and the case-study approach were adopted in the context of this research; 3) the description of the research design including the steps followed and the methods employed by the researcher; and finally (4) a discussion of the quality of the qualitative data analysis reflecting the ‘convincingness criteria’.

4.2. The Research Philosophy and Paradigm

The research philosophy is an “overarching term [that] relates to the development of knowledge and the nature of that knowledge” (Saunders *et al.* 2009:107). It usually contains significant assumptions about the way in which the researcher views the world (*ibid.*). These assumptions will underpin the research strategy and methods that the researcher adopts as part of that strategy (Blumberg *et al.* 2008; Saunders *et al.* 2009). Research is thus influenced by previous assumptions and beliefs (Hoque and Hopper 1994). This recognizes the significance of thinking about what the research consists of in a pragmatic way (Blumberg *et al.* 2008). A research paradigm is defined as a general perspective or way of thinking that reflects

fundamental beliefs and assumptions about the nature of organizations (Gioia and Pitre 1990). It is normally used to signify a way of searching for a phenomenon (Gill and Johnson 2002). Another definition of paradigm is that of a process of ‘scientific enquiry’ based on people’s philosophies and assumptions about the world and the nature of knowledge (Hussey and Hussey 1997).

Burrell and Morgan (1979) suggest that a paradigm which classified social science into the subjectivist position, which tends to prefer nominalist, anti-positivist, voluntarist, and ideographic (qualitative emphasis), and the objectivist position, which tends to prefer realist, positivist, determinist and nomothetic (quantitative emphasis). On the one hand, the nomothetic (quantitative) is embodied in the method used in the natural sciences, focusing on the process of hypotheses-testing. This testing employs quantitative techniques, for example surveys and questionnaires; personality tests and standardized research instruments of all types are prominent among the tools that comprise nomothetic methodology (*ibid.*). On the other hand, the ideographic (qualitative) method is related to social science, which is established on the view that it is possible to understand the social world by obtaining direct knowledge of the subject under study. The ideographic emphasizes the importance of letting one’s subject disclose its nature and characteristics during the process of investigation (*ibid.*).

The objectivism dimension portrays the position that social entities exist in a reality external to social actors concerned with their existence; in contrast, the subjectivism dimension holds that social phenomena are created from the perceptions and consequent actions of those social actors concerned with their existence (Saunders *et al.* 2009). The difference between the objectivism and subjectivism is analogous to that between the functional and interpretive approaches. On the one hand, the social science feature of the functionalist paradigm is located in objectivism and rooted in positivism, which attempts to use models and methods of the natural sciences to investigate human behavior (Burrell and Morgan 1979). However, functionalism is unable to introduce descriptions of social change (*ibid.*); it has a lack of research accumulation (Otley and Berry 1994). On the other hand, the interpretive approach is located within the subjectivism and regulation of sociology. Ryan *et al.* (2002) identify that the interpretive paradigm is concerned with understanding the social world, and it seeks to understand the social nature of accounting practices. The interpretive paradigm includes subjectivist research, which enquires seriously into the subjective meanings that people attach to things (Lukka 2010). In this way, the interpretive paradigm, which was adopted in this

study, focuses on making sense of the social nature of daily life, which recognizes that the world could be viewed as socially constructed (Ryan et al. 2002; Lukka 2010).

This study requires a methodology that will help the researcher to focus on explaining management accounting processes after NPM ideas emerged in Jordan. Management accounting literature argues that there have been calls for more research to study this topic from institutional perspectives. So, the topic needs to be studied in depth to provide an understanding of the field of the research. To achieve that, the paradigm selected has to be able to realize the objectives of the study. Besides, institutional theory recognizes that knowledge is subjective (Scapens, 1994). So, the interpretive paradigm seems to be suitable for this research in order to obtain that in-depth understanding about the processes of management accounting change. Accordingly, this study adopts both the interpretive paradigm and institutional theory because they are appropriate to explain the processes of change. Furthermore, the ontological and epistemological assumptions that underpin the interpretive paradigm are consistent with the assumptions that underlie the institutional 'contextual' framework used to inform the JCO case-study. In this regard, Scapens (1994) pointed out that institutional theory has cultural and anthropological dimensions as a basis for understanding management accounting change, whereas both the interpretive paradigm and institutional theory see management accounting as socially constructed and consisting of a set of rules and routines that may be institutionalized and routinized. The following debate supports this selection.

Prominent accounting scholars, especially Anthony Hopwood, embarked on a new research agenda. Hopwood (1976:1) has distinguished the functioning of accounting in response to conventional perspectives as follows: "accounting has been seen as a rather static and purely technical phenomenon [...]. The purposes, processes, and techniques of accounting, its human, organizational and social roles, and the way in which [...] information is used [...] have never been static". He also stated that "there is now an urgent need for research [...] for seeing accounting as both a social and organizational phenomenon [...] even what might be the quite significant ritualistic role of many accounting systems needs to be recognized [...]. Opportunity should be taken to move beyond static forms of analysis to study the complexities of [...] the dynamics process of accounting" (Hopwood 1976:3). He has argued for at least three decades that we should pay attention to the organizational and social contexts in which accounting operates (Hopwood 1978).

Hopwood affirmed that we should attend to the ‘external’ origins of ‘internal’ accounts, that we should not see ‘context’ as something external to organizations, but as something that passes through them, and that we should see accounting as both shaped by, and shaping, wider social processes (Hopwood 1983; Burchell *et al.* 1985; Chapman *et al.* 2009). This study is very much in line with this way of thinking, as it is also a contribution to this approach. Since the study aims to explain the processes of management accounting change in the JCO case-study as influenced by NPM reforms and institutional pressures, it requires a methodology to assist the researcher in achieving this aim. This study adopts institutional theory to understand change dynamics, while there has been no prior evidence in Jordan of any focus on this topic. As a result, the topic should be studied for a deep understanding of the research field. The appropriate paradigm should be selected to achieve the aim of the study. Scapens (1999) stated that studies of management accounting change advance by using interpretive perspectives. Accordingly, the interpretive paradigm with a subjectivist emphasis appears to be suitable for this research.

In general, functionalists describe the unproblematic nature of management accounting and control function. Despite the dominance of those views in the conventional wisdom of management accounting, functionalism suffers from some serious flaws: it considers the context as a given, and assumes individuals and organizations play passive roles in relation to the function of accounting (see Hopper and Powell 1985). Unlike functionalist researchers, interpretive researchers seek to examine how context can be an explanatory variable for understanding management accounting change and the interplay between the context and the function of accounting (Burchell *et al.* 1980). In response to the flaws in the functionalist approach, interpretive researchers aim to examine how and why management accounting exists and how changes in practice can occur. This can enable to understand how management accounting has changed from a mechanistic to a post-mechanistic form. These perspective mainly draw on institutional theories (Wickramasinghe and Alawattage 2007). The main aim of these theories is to provide alternative perspectives on accounting change with a sociological flavor (*ibid.*).

A number of management accounting researchers have used institutional perspectives to interpret the processes of management accounting and organizational change (Ryan *et al.* 2002). This approach introduces Dillard *et al.*'s (2004) framework and Burns and Scapens' (2000) framework (*ibid.*). Besides, a considerable number of accounting researchers have

conducted their studies in the spirit of an interpretive paradigm (Kakkuri-Knuuttila *et al.* 2008; Lukka 2010; Lukka and Modell 2010). In management accounting literature, “interpretive accounting research is frequently characterized by what it is not, that is, ‘non-mainstream’ or ‘alternative’” (Ahrens *et al.* 2008). Consequently, interpretive researchers seek to understand the nature of management accounting practices, and how practitioners exercise their knowledge (Scapens 2008). In contrast to functional and radical approaches, interpretive theorists are seen as helping sustain and legitimize the current social, economic and political order (Hopper and Powell 1985). An appreciation of how accounting is related to wider social and economic processes and structures can be derived from studies of the function of accounting and its organization (*ibid.*).

Accordingly, interpretive accounting research can be portrayed ‘as a loose alliance of many possible futures’ (Baxter *et al.* 2008). Interpretive research has the possibility of generating not only subjectivism but also explanations (Lukka and Modell 2010). In this regard, Lukka and Modell (2010) examine the validation of interpretive management accounting research from two central features, i.e. authenticity and plausibility. The notion of authenticity can be reinforced through the construction of relatively holistic explanations giving voice to the ‘other’ (*ibid.*: 474). Plausibility is relevant for measuring the credibility of the explanations being developed. Following the selection of the research paradigm, the next sections will discuss the research approach and strategy accordingly.

4.3. Research Approach (The Methodology)

It is useful to attach the research approaches to the appropriate research philosophies; i.e. the deductive approach is associated with positivism, and the inductive with interpretivism (Saunders *et al.* 2009). Inductive and deductive analyses are regarded as distinct logical and psychological processes (Goel and Dolan 2004). Philosophically, induction and deduction comprise different categories of thought (*ibid.*). Inductive analysis is usually contrasted with deductive analysis (Klauer *et al.* 2002). In qualitative research, an inductive rather than deductive analysis is adopted (Thorne *et al.* 1997). On the one hand, a deductive approach is a study in conceptual and theoretical structure after testing the data that have been collected (Collis and Hussey 2009). It thus aims to explain causal relationships between variables, and depends on quantitative data (Saunders *et al.* 2009). In so doing, it seeks to generate hypotheses from theoretical assumptions and test those hypotheses alongside empirical data. Deductive research is developed and then tested by empirical observation; hence, particular

instances are deduced from general inference. Consequently, the deductive approach moves from the general to the particular or from theory to data (Otley and Berry 1994; Hussey and Hussey 1997; Saunders *et al.* 2009).

On the other hand, inductive research is a study through which the theory is developed from empirical reality (Collis and Hussey 2009). It endeavors to create generalizations from observation findings in theoretical statements that aim to interpret and explain what happened in specific phenomena (Otley and Berry 1994). Unlike the deductive approach, the inductive approach depends on qualitative data and close understanding of the research context; hence, general inferences are induced from particular instances. Since it entails moving from individual observation to statements of general patterns or laws, it moves from the specific to the general or from data to theory (Hussey and Hussey 1997; Saunders *et al.* 2009).

According to the inductive approach, the study of a small sample of the relevant population might be more appropriate than a large number, which would be used in the deductive approach. Therefore, researchers using this approach are more likely to work with qualitative data and to use a variety of methods to collect these data in order to establish different views of the phenomena (Easterby-Smith *et al.* 2008). Emphasizing the role of qualitative research data and methods in explaining the 'black box' of phenomena, some authors suggest that researchers need to be socialized into the processes that continually define (and redefine) an organization's characteristics (See Patton 1989; Pallot 1992; Yin 2003). In addressing the significance of qualitative research methods in the management accounting discipline, many scholars have suggested that such methods provide a rich explanation of the social world - particularly of the meanings attached to actions in actors' language. Briefly, the qualitative research method provides an understanding of how accounting meanings and rules are socially generated and sustained (see, Hopwood 1983; Kaplan 1983; Kaplan 1984; Hopper and Powell 1985; Kaplan 1986; Scapens 1990; Humphrey and Scapens 1996; Ryan *et al.* 2002; Navarro Galera and Rodríguez Bolívar 2007; Tikk and Almann 2011).

According to the subjective-interpretative paradigm, the theory must be used to provide explanations of human intentions. In relation to practice, accounting theory here aims to explain action and to understand how social order is produced and reproduced (Chua 1986). This is consistent with institutional theory adopted in this study, while both institutional and interpretive approaches consider management accounting practices to be socially constructed.

In this regard, Browne (2005) pointed out that the qualitative approach (inductive) seeks to interpret how people are feeling about particular things and attempts to create ways of looking at those things. Qualitative and inductive research is related to the interpretive paradigm “which seeks to describe, decode, translate and otherwise come to terms with meaning” (Easterby-Smith *et al.* 2008:421). In this way, “qualitative research is an approach rather than a particular set of techniques, and its appropriateness derives from the nature of the social phenomena to be explored”(Morgan and Smircich 1980:491). With this rationale, this study adopts qualitative and inductive approaches to understand and interpret the phenomena of management accounting change in the JCO case-study.

In this regard, Filstead (1992) argues that a qualitative research approach does not suggest that a researcher lacks the ability to be scientific when collecting data. On the contrary, it specifies that, for validity (and consequently reliability), it is essential to show the empirical social world as it actually exists for those under analysis, rather than as the researcher imagines the social world to be. Consequently, this methodology was chosen in order to develop a rich, in-depth explanation of the organization and its management accounting practices. To understand these practices, the research strategies and methods used must reflect a wide range of organizational phenomena (Lapsley *et al.* 2009) and provide more than a technical description of the accounting system (Roberts and Scapens 1985). The role of accounting cannot be understood in isolation (Caba-Perez *et al.* 2009). Since the main objective of this study is to explain the processes of management accounting change within the JCO in relation to its environment, a field-based case-study is an appropriate choice of methodology, particularly for this type of study, which aims to understand the role of institutional pressures on organizational activity (Hopper *et al.* 2001). In other words, qualitative research in this study will take the form of an interpretive case-study to track differing paths of change and their effects through time (see Brignall and Modell 2000).

4.4. Research strategy

In qualitative research, “[...] methods should be selected and evaluated according to their appropriateness to the subject under study” (Flick 2009:133). Qualitative research data “consist of detailed descriptions of situations, events, people, interactions, and observed behaviours, direct quotations from people about their experiences, attitudes, beliefs, and thoughts” (Liguori and Steccolini 2011:22). In the same way, case-studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships

(Carlström 2012). Hence, case-studies and interviews can help to meet such objectives (Maher *et al.* 2007), allow the researcher to become closely familiar with the context of the research (Campbell 1975), and assist in explaining and describing the processes of an organization's behavior (Scapens 1990). Yin defines a case-study as:

“an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence are used” (2003, P. 23).

Various qualitative methodological strategies have been used in MA research, including case-studies, field studies and field surveys (Scapens 1990; 1992). Accordingly, this study adopts an interpretive case-study because it is appropriate for explaining the processes of change. Also, the ontological and epistemological assumptions that underpin the interpretive paradigm are consistent with the assumptions that underlie the theoretical (contextual) framework used to inform the case-study⁵⁶. Case-studies can be utilized in various ways and have descriptive, illustrative, experimental, exploratory and explanatory functions (Scapens 1990). While the relations between the extra- and intra-organizational contexts are not necessarily simple and/or linear, they are inextricably linked (Hong 1991; Bhimani 2001). Hence, an explanatory case-study (Scapens 1990) is needed to explain these complex relations, and theoretical concepts are required to interpret the case-study findings. In this regard, multiple case-studies are not considered to be either necessary or superior to single case-studies, given the adopted holistic type of research (Scapens 1990).

An explanatory (interpretive) case-study is considered the preferred research strategy, where the predominant research questions are those of ‘why’, ‘what’, and ‘how’, because it permits a wide range of data to be collected; the strategy not only provides multiple perspectives but also enables the collection of such data directly from the source without any predetermined ideas about the answers or even the form of the answers (Scapens 1990; Ryan *et al.* 2002). Also, case-study methods may add to a more holistic and richer contextual understanding of survey results and help to explain apparent anomalies or puzzles emerging from the latter – i.e. survey (Modell 2005). In the same way, Johnson highlights the importance of the case-study method:

⁵⁶ Significantly, Burns and Scapens (2000:9) state:

“It should be emphasized that this framework is not intended to provide operational constructs for empirical research and hypothesis testing. Rather, its purpose is to describe and explain analytical concepts which can be used for interpretive case studies of management accounting change”.

“The most appropriate place to learn about business, and to research and develop theories about business, is in places of business. If anyone says it is impossible to make scientific generalization by studying samples of one, tell them that they have much to learn about the concept of "scientific" investigation. Going inside and studying intensely over a long period the working of a real business organization is certainly the most important research any business professor can do. A socially responsible and enlightened business school will not keep in its employ any business professor who denies the validity - no, the primacy - of field-based research” (1992:189).

However, a general criticism of case-study methods is that they lack rigor and provide little basis for generalization (Dixon and Smith 1993; Baker and Bettner 1997; Yin 2003; Lukka and Modell 2010). Given this method's inability to permit generalization, it is argued, interpretative theories can be generated only in relation to the organization and topics being investigated (Jazayeri and Hopper 1999). Nevertheless, as Lukka and Kasanen (1995) propose, there is considerable potential for generalizations from high-quality case-studies. Another criticism of this method is that there may be no such thing as an objective case-study since “[the] social reality must be interpreted by the researcher and, thus, case studies represent interpretations of the social reality” (Scapens 1990: 277)⁵⁷. Other authors summarized some limitations of case-studies as a scientific method: they lack statistics, cannot test hypotheses and cannot make generalizations (Gummesson 2000; Hoque 2006). Scapens clarifies some difficulties of the case-study as research strategy:

First, there is the difficulty of drawing boundaries around the subject matter of the case. [...] The second difficulty for case study researchers stems from the nature of the social reality which is being researched. [...] This raises the problem of researcher bias. [...] The final difficulty of case study research [...] is the ethics of the researcher's relationship with his/her subjects. Many accounting case studies require access to organizations and to confidential information. Access may only be secured if confidentiality is assured (1990: 276-277).

Nevertheless, the reliability and validity of a case-study is more important than its generalizability (Lillis 2006; Bell 2010). Thus, case-studies can be utilized to generate theoretical generalizations (Gummesson 2000). Scapens explains the value of an exploratory case study:

“In comparison with the more traditional forms of accounting research, it is important to recognize that case studies are concerned with explanation, rather than prediction. Researchers should avoid the temptation of thinking of case studies only in terms of statistical generalizations. Researchers who see generalizations only in this sense will either reject case study methods or not fully exploit their potential. Management accounting research will be greatly strengthened if case studies focus on explanation and theoretical generalization” (1990: 278).

The interpretive case-study in this study is the Jordanian Customs Organization (JCO). JCO is a large public organization that was established in 1921; it is a geographically distributed and

⁵⁷ It is argued that “all methods have this problem”.

labor-intensive organization which provides public services and trade facilitation. There was a necessity to establish a governmental agency to control the exchange of goods and commodities including both imported and transit goods. JCO is headed by a Director General reporting directly to the Finance Minister. JCO has witnessed many developments at organizational level that were affected by various social, technological and economic pressures. This has made JCO an important part of an interconnected system that works in consistency with the state's public policy to achieve all of the national objectives seeking to promote and support the homeland⁵⁸. Thereby, institutional pressures of both a coercive and a regulative nature have continued to emanate from the government. The government requires JCO to be economically efficient but at the same time prevents it from behaving in a strictly commercial manner (Nor-Aziah and Scapens 2007).

According to the 2011 Annual Report, JCO provided public services for more than 7 million people spread across a geographical area of over 89213 km². Since the establishment of the JCO, a number of Customs Houses (branches) have been established. This number has increased along with the large increase in trade movement. Now the number of major and minor Customs Houses and Directorates amounts to 62 (32 Houses and 30 Directorates). These Customs Houses can be classified into three main categories (Clearance Centers, Border Centers, and Post Office Centers) in addition to two Customs laboratories in Amman and Aqaba. JCO is now among the world's most developed customs organizations in terms of providing high-quality customs services, exceeding stakeholders' expectations. The rationales behind the selection of JCO are as follows: 1) there is a lack of research focusing on this topic in Jordan as one of the developing countries; 2) there is a new reforms agenda that is manifested in the Jordanian context in general and JCO in particular; 3) JCO was selected because they have had experience in the application of management accounting systems; 4) JCO is a large organization including a Budgeting Department, and the headquarter is located in Amman City; 5) limited sources and time constraints; 6) the research access and data collection; and 7) the language of the researcher and interviewees.

⁵⁸ The Jordanian Customs Organization's functions are expanding to effectively support the national economy, promote investments, facilitate trade exchange, combat smuggling and protect the environment and local society from hazardous materials, and to monitor passengers' and goods' movement and means of transport passing through the Kingdom by adopting the best advanced technology (JCO Annual Report 2011).

This study focuses on both the external environment and the internal organizational context of JCO, as well as their interactions. By exploring the interface between the macro- and micro-levels, the complex process of management accounting change in JCO was studied in more detail. However, constraints on data collection and analysis caused a number of limitations. A longitudinal study could not be conducted to observe the historical events unfolding over time; nevertheless, the researcher was able to reconstruct the historical context of JCO based on documentary evidence and interviews with managers (and others) who worked during the pre-implementation and post-implementation phases of the new budgeting systems. As a result, the case-study approach enabled the researcher to make sense of the complexities and evolution of accounting processes in terms of the underpinning routines and associated institutions (Nahapiet 1988). Johnson and Christensen (2007) point out that the most appropriate places to study business and to research and develop theories about business is at sites of business (Scapens 1990).

4.5. Research Design Process

According to Yin (2003), each category of empirical research has an implicit or explicit research design. Research design is a logical plan (sequence) for getting from here to there, where here can be defined as the initial set of questions to be answered, and there is a set of conclusions to answer these questions (Yin 2003). Between here to there, researchers will encounter certain phases including data collection and data analysis (*ibid.*). In management accounting research, six steps⁵⁹ of the case-study approach have been followed in a logical sequence. These steps are as follows: preparation, collecting evidence, assessing evidence, identifying and explaining patterns, theory development, and the thesis write-up (Ryan *et al.* 2002; Scapens 1990). According to the second step, Saunders *et al.* (2009:146) state: "If you are using a case study strategy you are likely to need to use and triangulate multiple sources of data". Research design is mostly about employing theoretically consistent choices and methods to achieve the research objectives (Oliveira 2010). This study followed these six

⁵⁹ A short discussion of these steps would be helpful. (1) Preparation is a review of existing theories considered to be relevant to the issue or theme of the case. (2) Indicates the types of evidence suitable for collection in the case, here including interviews, documents and archival records, direct and participant observation, and 'informal' evidence such as 'spontaneous discussion' or 'casual comments'. (3) To attain the reliability and validity⁵⁹ of the evidence, such evidence needs to be assessed through a process of "triangulation" to verify any new themes or patterns. (4) Any patterns or themes that emerged should be explained, connected, and compared with existing theory. (5) Such patterns can shape the basis of a theory to explain the issues and the subject of the case; hence the aim is to connect such theories into 'pattern models' and develop theoretical generalization. (6) Any convincing evidence and theoretical implications, made plausible and intelligible, should be reported (see, Scapens 1990; Yazdifar 2004).

steps when conducting the case-study in order to carefully collect and evaluate the evidence to develop the theory.

4.5.1. Preparation

Before starting the process of collecting evidence from the fieldwork, the main literature associated with the topic under analysis was reviewed in order to better define the study. The results of this research step are included in Chapter Two. Afterwards, the starting point for the case-study is the research framework and research questions (Voss *et al.* 2002). The researcher has thus reviewed existing theories that are relevant to the case and the subject of the study (Scapens 1990; 2004). Accordingly, a theoretical framework inspiring institutional theories was developed in Chapter Three. This research step has clearly helped to address the research question(s) (Ryan *et al.* 2002). Besides, the researcher should decide on the suitable number of cases to explore in the research (Crosthwaite *et al.* 1997). In this regard, a pilot case-study including three organizations was conducted to negotiate research access. One of these organizations (i.e. JCO) granted the researcher access to confidential documents and other data collection methods. Certain amendments to the research questions were raised by the pilot study and the main study was determined. These research questions encompassed a main and some subsidiary research questions.

The main research question was: (*‘How have processes of management accounting change been manifested in the Jordanian Customs Organization after NPM reforms?’*). In relation to this, the following specific research questions were addressed: (1) *‘What were the institutional pressures (powers) that affected the emergence and diffusion of management accounting systems?’*; *‘How did they interact through three levels of institutional analysis?’*; (2) *‘How have processes of management accounting systems, particularly budgeting systems, been implemented and changed within JCO?’*; and (3) *‘How have the dynamics of organizational change and ICT affected management accounting change?’*.

Data collection methods depend on gaining access to an appropriate source, or sources where there is a choice. The appropriateness of a source depends on the research questions, related objectives and, hence, the research design (Saunders *et al.* 2009). According to Gummesson (1991), physical access or entry is considered a first level of access, while the Internet has certainly made accessing some secondary data easier, as gaining access to much secondary and primary data can be still be difficult. Physical access to an organization or group will be formally granted through its management; additionally, the researcher must obtain acceptance and consent from the intended participants in the organization in order to gain access to the

data that they have (Andrews 2009). Many authors also argue that other levels of access need to be considered and planned to realize the research strategy as a continuing process and not just an initial or single event (Ezzamel 1991; Hopper and Armstrong 1991). Thus, the researcher had easy access to the organization as a result of past experience and confidential relationships between him and the management of the organization and existing employees.

The researcher considered a number of strategies to gain access that were inspired by the literature: using existing and developing new contacts within JCO; providing a clear account of the purpose and type of access required including initial contact or request for access involving a telephone call to the General Director of JCO and an introductory letter (from DBS Dean) requesting access to JCO (see appendix-2); a letter from the General Director to line managers to facilitate data collection; overcoming organizational concerns in terms of the limited time and resources; highlighting possible benefits to the organization; and using suitable language (Saunders *et al.* 2009). The key point in gaining access involves the researcher establishing precisely what data he wants to collect and the method(s) he intends to use to collect them. Hence, the researcher's ability to clearly demonstrate the particular research project's competence and integrity will be critical at each level of access (Saunders *et al.* 2009). The researcher was able to explain the research project clearly and precisely to the interviewees at all levels of the organization⁶⁰.

Research ethics relate to questions about how we formulate and clarify our research topic, design our research, gain access to organizations and to individuals, collect data, process and store our data, analyze data, and write up our research findings in an ethical and responsible way. Saunders *et al.* (2009:183-84) argue that, "Ethics refers to the appropriateness of your behavior in relation to the rights of those who become the subject of your work, or are affected by it". In the same way, the researcher has completed and signed the research ethics form in accordance with DBS⁶¹ code of ethics before starting data collection (see appendix-1). During data collection, when interviewing the participants the researcher explained his research project and the reasons why he needed to audio-record the interviews (with the interviewees' permission), emphasizing that participants were not obliged to participate unless they wished to. The researcher has avoided over-zealous questions and refrained from

⁶⁰ Flexibility in the definition of the theoretical topic might also be needed to deal with pragmatic reasons related to access to organizations. Access is typically not unlimited, is always precarious and should never be taken for granted. Therefore, even after the start of the fieldwork, there is no guarantee that planned or even adopted options (including the theoretical topic) will be maintained throughout the fieldwork (Olivera 2010).

⁶¹ DBS is Durham Business School, which becomes later Durham University Business School.

pressing the interviewees for a response (Sekaran 2003). He also avoided accessing personal data and confidential information without participants' permission.

4.5.2. Collecting Evidence

The second step of the research design process is collecting evidence, which is focused on data collection methods or sources of data in the JCO. The case-study data can be derived from six sources: interviews, direct observation, participant observation, documents, archival records and physical artifacts (Yin 2003). The fieldwork data collection in this study was conducted over a twelve-month period from November 2011 to November 2012, in three sequential stages. The first stage took place from November to December of 2011, which was selected to serve the purpose of the study. This stage aimed to examine the influence of external (the government) and internal factors on the processes of management accounting change, to assist in the development of relevant lines of questioning, and to provide some assistance and clarification for the research design (Yin 1994). This stage included a pilot study of six to ten interviews in the JCO to verify the research questions, semi-structured interviews, and the collection of internal and external documents.

The second stage occurred between January and February of 2012; the focus was on the main study, and more specific data were collected than those previously gathered. The collected data included in-depth interviews inside and outside JCO focusing on the management accounting and organizational change and the 'managing for results' initiative. There were also direct and participant observations, and the collection of documents and archival records about JCO activities concerning management accounting systems including budgeting systems, as well as other documents concerning organizational aspects, such as organizational structure, ICT, strategic planning, and KAA Model. This stage included important documents and notes from the donors and consultants (especially USAID, BearingPoint Inc., and IntraCom Inc.), and other related documents about FRP I and II from relevant ministries. The third stage occurred between October and November of 2012; this enhanced the previous stages, collected more documents about emergent issues in the analysis, and included spontaneous discussions with the previous interviewees.

Thus, this study uses the *method triangulation*⁶² of data collection: interviews and observations as primary evidence with documents and archival records as secondary evidence. This approach has been used by many authors (e.g., Lind 2001; Marginson 2002; Hopper and Major 2007; Lukka 2007; Vaivio and Sirén 2010). Scapens defines the triangulation method as “the process of collecting multiple sources of evidence on a particular issue” (1990:275). Although semi-structured and unstructured interviews constituted the primary method of data collection, other methods were used to complement these interviews as follows: participant observations; reviews of documents, annual reports, monthly management reports and legislative documents; and direct observations of the processing activities (Nor-Aziah and Scapens 2007).

4.5.2.1. Interviews

May (1997) identifies four types of interviews: (1) structured interviews, which are usually utilized within quantitative research; (2) semi-structured interviews, which use techniques from focused and structured methods, and are normally enhanced by an interview guide to help the researcher confirm that all essential topics and issues are covered; (3) unstructured or focused interviews, which are embodied by their open-ended character; and, (4) group interviews, which permit researchers to concentrate upon group norms and dynamics around issues that they seek to examine. Structured interviews may be utilized in quantitative research, while semi-structured interviews and unstructured interviews (in-depth interviews) can be employed in qualitative research (Bergman 2008). To serve the purpose of the study, the first type of interview was not used as it provides no more than the basic answers and uses formal and standardized questions (Saunders *et al.* Browne 2005; 2009). The other three types of interview were used and depended on open-ended questions (e.g. ‘why’ and ‘how’), starting with semi-structured interviews enhanced by an interview guide (see appendix-6) with a simple list of topics or themes that the researcher initially wanted to discuss during the interviews (*ibid.*). The researcher depended on management accounting literature alongside the research objectives to build up the themes and questions in semi-structured interviews (see, for example, Hopper and Major 2007; Siti-Nabiha 2000; Ter Bogt 2008; Yazdifar 2004).

⁶² The key rationale for *method triangulation* is usually enhancement of the validity of research results. Further, it is considered a means of avoiding potential validity threats that are created in relatively general terms based on the potential strengths and weaknesses of different methods (Modell 2005). In the same way, data triangulation efforts have essentially a dual role, since they “help the researcher to generate a rich source of field data with internal checks of its validity” (P.482). In addition, they provide a wider and richer understanding of MAPs than would be produced using a singular method (Hopper and Hogue 2006).

The interview guide was divided into three parts: general and historical data, management accounting change, and budgeting systems respectively. The aim beyond that is to serve the purpose of this study and its objectives, and it is not expected that each interview will seek to cover all the themes.

The researcher can obtain a deeper understanding and holistic and rich data if he uses semi-structured or unstructured interviews. The purpose of semi-structured interviews was to verify some preliminary themes; hence, the researcher can decide which dynamics need further in-depth explanation (Sekaran 2003). Afterwards, the researcher used in-depth interviews including focus groups to explore the dynamics of management accounting change. In management accounting literature, many researchers have used in-depth interviews (e.g., Lapsley and Pallot 2000; Scapens and Jazayeri 2003; Ezzamel *et al.* 2007; Lukka 2007). Besides, the interviewees were asked open-ended questions that may have commenced discussions (Browne 2005). The researcher attempted to put the interviewees at ease in an informal situation and encouraged the interviewees to express their opinions and feelings (*ibid.*). At the same time, new questions were generated through the flow of conversation (Saunders *et al.* 2009).

The study involved the collection of data (i.e. interviews and documents) from JCO, and also from other public organizations or ministries such as MOF, MOPSD, MOPIC, GBO, DU in the Cabinet, Audit Bureau, the Jordanian Parliament, and FRP II staff and consultants. In total, eighty recorded interviews and five non-recorded interviews were undertaken with eighty different interviewees⁶³ during the researcher's visits to the case site from November 2011 to November 2012 (see Appendix-5). These visits were used to gather evidence concerning management accounting, organizational aspects, the 'managing for results' initiative, and the internal and external contexts which affected the existing and new management accounting systems. As such, a retrospective approach was used, asking interviewees to describe, explain and reflect upon the events that they had experienced in the past. In some situations, relying on their memories was the only practical option, but memories can be partial and may be shaped by present viewpoints. Hence, care should be practiced and, wherever possible, multiple interview techniques were used.

⁶³ These interviewees hold positions at different organizational levels: consultant, administrative, supervisory, and executive. The list of interviewees, as set out in appendix-5, was classified in accordance with these positions in order to reflect the level of considerable experience and knowledge of the interviewees about the organization; hence, the quality of the interview data.

The interviewees, drawn from different levels inside JCO, held different positions [from Chief Financial Officer (CFO) to accountant], and were from a variety of backgrounds. Besides these interviews, other interviews were performed outside JCO as mentioned above. The views of the different groups were sought and interviewees were asked similar questions concerning the role of the MASs and the changes during and since the implementation process. However, it is relevant to note that most of the accountants were interviewed (except the CFO and Managing Director). Many of the other people interviewed had been present throughout the entire implementation process. These included members of the Human Resource (HR), TQM, and KAA Model committees, Strategic Planning, ICT and technical departments and directorates, as well as senior managers at headquarters. In addition, related government officials from different public organizations were interviewed. They were useful in elucidating the institutional pressures on JCO and the changes in regulations that have impacted JCO. Their views provided evidence of the perceptions and expectations of the government and the regulator of JCO.

The number of interviews was not preset, but was determined in part by pragmatic considerations, for instance time constraints, and also by the achievement of theoretical saturation (Fleischman and Tyson 2006). The selection of the particular interviewees was directed by both theory and the research questions. The sampling of interviewees was therefore purposeful and not theoretical (Chandler 1992; Chandler 1993; Nor-Aziah and Scapens 2007). There was a planned focus on the professional groups most likely to be involved in the management accounting and organizational changes that took place during the process of implementation, such as ICT specialists and Strategic Planning Officers.

According to MA literature, there are seven steps of interview investigation: thematizing, designing, interviewing, transcribing, analyzing, verifying, and reporting (see Kvale and Brinkmann 2009). Therefore, thematizing is the first step in the interview procedure; it aims to formulate the purpose of the interviews and organize themes to be examined before starting the interviews (Kvale 2008). A variety of themes were considered in this study during the interviews. These interview themes were divided into different parts. In the first part, the interviewees were asked to present a comprehensive historical background about the JCO as well as their career paths. They were then asked about the most important changes occurring during the past and present. The main theme that the researcher wanted to discuss with the participants was management accounting and organizational change in the past, present, and

future. It was not expected that each interview would cover every theme (Yazdifar 2004). Through the interviews, the interviewer opened up other themes that generated other questions and ideas. Some ideas were associated with the interviewees' previous experiences: the role of budgeting systems and accounting information; teamwork, the relationship between accounting and organizational aspects, and performance evaluation; responsibilities and accountabilities; training programs; certain changes that interviewees expected to take place in the organization in the future (Zoubi 2011).

The second, third and fourth steps of interviews focused on designing, interviewing and transcribing respectively. In the designing stage, the researcher planned all the procedures and techniques of the interviews (Kvale 2008). In the interviewing stage, the mechanics of conducting interviews in the current study underwent three phases (see, Patton 2002). The first phase was to record data using a digital voice recorder to avoid response bias related to politically sensitive issues. The second phase was to write down notes and gestures during interviews and occasionally stop the recording at the interviewee's request in order to talk freely about events. In this phase, the researcher used open and probing questions to avoid response bias (see Easterby-Smith *et al.* 2008). In the final stage, the procedures following the interview were conducted, including transcription, translation from Arabic to English, and coding using the Nvivo program prior to the data analysis phase. In this regard, researcher needed a good knowledge of interviewing techniques to be able to formulate the true questions in the true way, listen carefully, take notes, and follow up with additional questions (see, Patton 1987; Yin 1994).

Interviews allow researcher to take notes throughout and conduct the process in relation to interviewee responses (Creswell 1998). Hence, it may be possible to use a voice recorder throughout the interview. In so doing, the researcher achieved greater flexibility to take notes and generate other questions. There were a number of advantages of using a voice recorder in this study, including the following: it helped the interviewer to focus on listening and asking questions; questions formulated could be accurately recorded for later use; interviews could be listened to repeatedly; direct quotes could be used⁶⁴; it provided a permanent record for others to use (Patton 2001; Saunders *et al.* 2009). On the other hand, voice recorders can have certain disadvantages: they may influence the relationship between interviewee and

⁶⁴ Patton (2001) pointed out that the interview data have to be real quotations reflecting the interviewees' contributions. Nothing can replace these data: real things said by real people.

interviewer; they may inhibit some interviewee answers and reduce reliability; and it can take a long time to transcribe the tape recording (*ibid.*). In this case, the researcher faced some difficulties in convincing the interviewees to accept the use of the voice-recorder in the interviews. For instance, the voice-recorder was rejected by the CFO, GD Advisor for ICT, Representative of Audit Bureau in JCO, GFMIS Project Manager, Delivery Unit Manager in the Cabinet, and Head of Impact Assessment Unit in MOPIC.

The act of taking notes affected the interview process both during and after interviews. During the interviews, the interviewer had to take notes in order to generate other questions, regardless of whether the conversation was being voice-recorded (Mack *et al.* 2005). These notes were important when some interviewees requested the researcher to turn off the voice-recorder during discussion of specifically confidential information (*ibid.*). Consequently, taking notes combined with the use of the voice-recorder made it easy for the researcher to focus on the interview (Hoepfl 1997). Certain issues regarding the interviews have to be confirmed. All interviews were organized in the headquarters of targeted organizations, especially JCO, and were conducted during official working hours⁶⁵. Furthermore, all interviews were conducted face-to-face; five of them were focus groups and the others were on a one-to-one basis. Therefore, no interviews were conducted by telephone or electronically via the Internet.

However, there was some overlapping between the interview steps and case-study processes. Although the transcription process was considered the fourth step of the interview cycle, it was intended deliberately as part of the evidence collecting process of the case-study. There was also an important issue in these steps in relation to the translation process, which was somewhat ignored by the methodology literature (Zoubi 2011). It is worth mentioning that the interview questions and themes were primarily formulated in English. These questions were sent to the supervisory team for their approval. After approval was received, these themes and questions were translated into the Arabic language by a professional translator (interpreter). On the other hand, the interviews were initially transcribed into Arabic, before being translated into English. The researcher played a major role in discussing issues related to translation. This process also included the translation of data from Arabic into English, since all the interviews were conducted in Arabic to facilitate the communication process with the participants (*ibid.*). Besides, Arabic is the mother tongue of both interviewer and

⁶⁵ The official working hours in Jordan begin at 8:00 am and end at 3:30 pm.

interviewees, which helped to build a deeper and holistic understanding of the complexity of the issues discussed, and to remove the cultural differences. The translation process was accomplished with the support of language specialists. In so doing, all interview data were converted and coded in the Nvivo program. The Nvivo program is helpful for organizing and managing a massive amount of data from multiple sources of evidence (Bazeley 2007).

4.5.2.2. Observations

Observation is a somewhat neglected aspect of research (Saunders *et al.* 2009). It can provide deeper understandings than could be obtained from interviews alone because it presents knowledge of the situation in which outcomes arise and may permit the researcher to observe events that members themselves may not be involved in or are refusing to discuss (Garner 1976; Hoepfl 1997). Saunders *et al.* (2009) define observation as a method of observation, recording, description, analysis and interpretation of the behavior of people. Hoepfl illustrates that “observational data are used for the purpose of description - of settings, activities, people, and the meanings of what is observed from the perspective of the participants” (1997, P.53). According to the literature, there are three common types of observations: direct observation and participant observation (Browne 2005), which are qualitative methods intended to discover the meanings that people attach to their actions; and structured observation, which is quantitative and is concerned with the frequency of those actions (Saunders *et al.* 2009).

Accordingly, this study used both types of qualitative observations to supplement other methods and increase the research validity. For direct observation, the Finance Directorate was considered a suitable unit for observation by the researcher due to it being the largest part of the organization. Yin states that, “by making a field visit to the case study ‘site’ the researcher is creating the opportunity for direct observation” (2003: 92). Indeed, the researcher can observe the people or organizational activity in their normal situations without influencing or changing their behaviors or environment (Browne 2005). In addition, the researcher has observed working methods in new budgeting systems as well as other accounting systems, and he has also observed the systems themselves directly. In participant observation, “the researcher attempted to participate fully in the lives and activities of subjects and thus becomes a member of their group, organization or community. This enables researchers to share their experiences by not merely observing what is happening but also feeling it” (Gill and Johnson 2002:144). Participant observation has been used by the researcher, especially in committees meetings and training courses, such as KAA Model

committees, to discover delicate nuances of meanings and symbolic frames, and to increase the level of immersion (*ibid.*).

For both types of observations, the researcher's identity⁶⁶ has to be disclosed when he collects the data from their sources or observes the events. The reason for this is that the researcher should be known to the participants. In addition, the researcher cannot take part in activities in the organization being studied because he does not want to influence the participants' behavior and environment (Ryan *et al.* 2002). Furthermore, the researcher has limited time and resources. As a result, three types of participant observations - complete participant, complete observer, and participant as observer - were rejected. The fourth one - observer as participant - was employed (Saunders *et al.* 2009), which means that the role of the researcher was as a visitor (Ryan *et al.* 2002; Scapens 2004). Yin (2003) identifies that participant observation can provide unusual chances for collecting case-study data but, at the same time, it is difficult to document the data (Mack *et al.* 2005); i.e. there is no valid evidence (Browne 2005). Hence, participant observers should have good attention and observation skills.

The researcher depended largely on the use of field notes that reflect running descriptions of settings, people, activities and sounds (Hoepfl 1997). Therefore, note-taking and observations were planned during both direct and participant observations. However, it was hard to simultaneously write down comprehensive and perfect field notes about what occurred (Mack *et al.* 2005). As a result, short and meaningful notes were taken. Hoepfl (1997) affirms that jotting down notes will serve as an *aide-memoire* when full field notes are constructed. This should take place as soon after observation as possible, preferably on the same day (Hoepfl 1997). After observations, these notes were expanded and linked to the research themes; sometimes they were reproduced as questions to be asked in the following interviews.

4.5.2.3. Documents and Archival Records

The evidence from the interviews and observations was further reinforced by documentary evidence⁶⁷. Documents have been used in the social science literature as a source of data either as a sole method or in concert with other methods (Sarantakos 1998). This study used

⁶⁶ The researcher had been working as a "Customs Auditor" in the JCO that was selected as the case-study. Also, the researcher has maintained good relationships with some managers and employees, in addition to General Director.

⁶⁷ The researcher obtained access to the organization's documents and archival records due to past experiences, contacts with organization members, assurance of confidentiality and the importance of the case-study. Scapens states that "access may only be secured if confidentiality is assured" (1990: 277).

different elements of this method to gain a lot of information about the history and changes in management accounting systems. Both internal and external documents were collected and reviewed (see appendix-3 & 4). Background information about JCO was obtained through its webpage, customs encyclopedia, newspapers, general budget manuals, fiscal reform plans and magazine reports, etc. The internal documents were obtained and reviewed during fieldwork. The documents included, among others, the annual reports in the English version, minutes of meetings, agendas, laws and regulations, the organization prospectus, the planning and budgeting manuals, TQM manuals, Risk Management manuals, training programs, strategic plans, organizational structure, etc. Informal documents, such as the internal divisional newsletters, brochures, magazine reports, and private documents (e.g., conferences, training courses, journals, diaries and letters) were also obtained and reviewed (see Creswell 2003). At the same time, a large number of documents as softcopies were collected and reviewed.

Documentary information may be appropriate to all case-study themes and this type of information can take various forms and should be part of an obvious data collection plan (Yin 2003). As the archival record can commonly take the form of computer files and records, it may also be important within the data (*ibid.*). JCO uses modem technology, E-Archiving system, E-customs and E-mails, which are part of its network of communication, such as, Customs Encyclopedia (see Abdul Khalid 2000). The researcher has access to this, which he can print out and put in a file. Moll *et al.* (2006) observe that the use of manual techniques rather than computer techniques have tended to prevail in accounting research, but this study used both of them. The researcher also had continuous access to the internal Customs Encyclopedia and correspondence with JCO employees, which helped to tackle all new emergent issues in the analysis. However, some memos and guidelines were disseminated through email, and were thus outside the domain of review.

The archival records method facilitates answers to the research questions, which are directed at the past and change over time, and an ability to respond to such questions could be restricted by the nature of archival records (Saunders *et al.* 2007). The archival records in this study included various types, such as website, organizational records both manual and electronic, organizational charts, plans, financial statements, accounting and budgeting systems guidelines, job descriptions, procedures channels, flow charts, statistical data and private records such as personal practices, diaries, and accounting records on both Word and Excel. This study used different aspects of this method to gain a lot of information about the

history and past changes in accounting systems. Consequently, documents and archival records have some advantages, as they allow a researcher to obtain the language and the words of participants, they can be accessed at a time suitable to the researcher, and they are an unobtrusive source of information; there are also disadvantages, in that the documents may not be authentic or accurate and materials may be incomplete (see Creswell 2003).

4.5.3. Assessing Evidence

In this stage, the researcher should indicate the quality and credibility of the case-study, especially the validity criteria (that what is being measured is what was intended to be measured) and data reliability (the data collection procedures may be repeated, leading to the same results). To do so, there are three fundamental procedures suggested by Yin (2003): (1) the use of multiple sources of evidence to provide the triangulation of collected data; (2) creation of a case-study database to guide all the documentation collected and generated during field work; (3) establishment of an evidence chain. The procedures referred to in (1) and (3) test the validity of data, while procedures (2) and (3) strengthen the confidence in the data collection procedures (Simões and Rodrigues 2011). However, in case-study research such notions of reliability and validity⁶⁸ are meaningless and unlikely to be appropriate. Consequently, alternatives to the criteria of reliability and validity are needed for case-study research (Scapens 2004).

Unlike quantitative research, given the pluralistic nature of qualitative investigation not all qualitative research can be assessed using the same criteria or strategies (Hammell 2002). Scapens (2004) proposed that reliability, validity and generalizability in quantitative research be replaced by procedural reliability, contextual validity and transferability in case-study research. Similarly, Lukka and Modell (2010) proposed using the criteria of authenticity, plausibility and transferability suggested by Atkinson (1990) to evaluate qualitative research as central to the process of “convincingness” (see also, Golden-Biddle and Locke 1993; Carpenter and Hammell 2000; Hammell 2002; Baxter and Chua 2008). These authors characterize “convincingness” in terms of three dimensions, which they refer to as authenticity, plausibility, and criticality (see, Golden-Biddle and Locke 1993). As a result, field research is eventually convincing because it also owns an “allegorical register” (Clifford 1986:103; White 1987:172). It is the textual figuration of these three forms of

⁶⁸ Scapens (2004:268) argues that quantitative researchers are concerned with the reliability and validity of their evidence. Meanwhile “reliability is the extent to which evidence is independent of the person using it, and validity is the extent to which the data are in some sense a ‘true’ reflection of the real world”.

“convincingness” that gives qualitative field research its “look of truth” (Geertz 1988:3; Baxter and Chua 2008). As Atkinson (1990, p. 176) states:

“The recognition of the textual conventions of [field research], then, does not rob it of its referential value, nor does it relegate it to a second division of non-sciences. If we comprehend how our understandings of the world are fashioned and conveyed, then we need not fear that self-understanding. Rather than detracting from our scholarly endeavours, an understanding of our textual practices can only strengthen the critical reflection of a mature discipline”.

In this study, great attention has been paid by the researcher to both the authenticity of the research findings and to the plausibility of explanations in order to secure the research’s validity (Lukka and Modell 2010). Validation is concerned with convincing readers of the authenticity of research findings, while simultaneously ensuring that explanations are considered plausible. Whereas the former is largely a matter of preserving the emic qualities of research accounts, the latter is intimately linked to the process of abductive reasoning, whereby different theories were applied to introduce ‘thick’ explanations (*ibid.*). To do so, researchers should convince readers that they have ‘been there’ and that they have been able to understand the real-life world of organizational members. When these data collection criteria are satisfied, then, together with an appropriate mobilization of theoretical insights, researchers can develop the ‘thick’ explanations which are the particular contribution of an interpretive research methodology (Lukka and Modell 2010; Herbert and Seal 2012). The following table (4.3) and subsections present the “convincingness” criteria for evaluating interpretive research.

Table (4-3) “Convincingness” Criteria for Evaluating Interpretive Research

Convincingness Criteria	Interpretive Tactics of the Case-study Research
Authenticity	Was the researcher there? & fieldwork phase together with showing a rich description
Plausibility	Does the history make sense? & write up phase together with providing a thick explanation
Criticality	Does the text activate readers to re-examine assumptions that underlie their work? & critical interpretation

(Adapted from Pozzebon 2003:12)

4.5.3.1. Authenticity

The first dimension of “convincingness” - authenticity - refers to the authoring of the so-called “been there” quality of field research (Geertz 1988). Also, authenticity refers to whether researchers provide an account that is genuine to their field experience such that readers are convinced that the researchers have “been there” (Golden-Biddle and Locke 1993). The present chapter has provided clear evidence that the researcher has “been there”. Hence, a convincing text can provide some form of written assurance of both the field researcher’s presence in and understanding of the field (*ibid.*). Authenticity, as is clearly evident in this study, is about the inscription of ethnographic authority (Marcus and Cushman 1982), which often entails some form of “calculative” reckoning narrating the number of days/months/years spent in the field, the number and type of informants and the quantum of data collected (Briers and Chua 2001). In writing up the fieldwork, it may be acknowledged that the fieldwork does not come with an immanent form of coherence; there are only “disconnected” activities which the authorial imagination configures into a convincing account of the field (see, Agar and Hobbs 1982; Hammersley 1983). As such, fieldwork is a basically textual enterprise combining both writerly and authorial activities (see, Atkinson and Hammersley 1994; Jeffcutt 1994).

Authenticity in this study is derived from the richness of explanation as discussed in Chapters Three and Seven, and is well in line with the core design of interpretive research: that of providing emic accounts of people’s meanings (Lukka and Modell 2010). The researcher also used authenticity to create questions about and raise considerations of the data to further data analysis and to guide ethical decisions (see Manning 1997). However, in qualitative research “there are no canons, decision rules, algorithms, or even agreed-upon heuristics” (Miles and Huberman 1984:230). Through authenticity, ethnographic texts appeal to readers to admit that the researcher was indeed present in the field and grasped how the members understood their world (Golden-Biddle and Locke 1993). Strategies⁶⁹ followed to realize authenticity include the following: particularizing everyday life, delineating the relationship between the researcher and organization members, depicting the disciplined pursuit and analysis of data, and qualifying personal biases (*ibid.*). Consequently, authenticity pertains to the procedural reliability and trustworthiness of the research process by evaluating the role played by the

⁶⁹ As Myers (1999) recognizes, one of the distinguishing features of case-study research is participant observation. “The researcher needs to be there and live in the organization for a reasonable length of time. Hence, a sufficient amount of documents/data must have been collected during the period of fieldwork. There should be some evidence of this involvement in any article produced” (Myers 1999:12). In addition, the researcher should strongly rely on in-depth interviews and analysis of archival documents.

researcher's biographical position and degree of engagement with the subject matter and participants, which are factors that influence data collection, analysis and sensitivity to differing theoretical perspectives (Strauss and Corbin 1990; Myers 1999). This study has adopted case-study strategies as suggested by Scapens (2004:268) in case-study research:

“It is important to know the researcher has adopted appropriate and reliable research methods and procedures. This is known as *procedural reliability*. The research should have a good design that addresses clearly specified research questions; there should be a comprehensive research plan; all evidence should be recorded in coherent and comprehensive field notes; and the case analysis should be fully documented. In this way the researcher can demonstrate that the case study findings are reliable, and another person could in principle, at least, examine what has been done”.

Burns (2000) suggests that readers of case-study research may identify with the situations faced by individual researchers and be able to transfer new understandings to their own contexts. Therefore, trustworthiness in qualitative research is significant to provide a clear, detailed and in-depth description so that others can decide the extent to which findings from one piece of research are dependable and transferable to another situation (Hammell 2002). This emphasizes that transferability should replace generalizability, or external validity as conventionally conceived. Transferability in case-study research is concerned with the extent to which findings can be transferred to other settings - similar contexts (Pozzebon 2003).

Besides, authenticity also pertains to the relevance of the study: the significance of the topic and the potential contribution of the study to the literature (Hammersley 1992). Furthermore, Marshall and Rossman (1989) stressed the need for the explicit revelation of how the research data linked into a body of theory. Sandelowski (1986:30) proposed that a qualitative study was credible or authentic “when it presents such faithful descriptions or interpretations of a human experience that the people having that experience would immediately recognize it from those descriptions or interpretations as their own” (Hammell 2002). All of these considerations are fully articulated in the following Chapters (especially Five and Six) as well as Chapter One. Whilst authenticity lies at the core of validating the defining elements of any interpretive research, namely rich descriptions, plausibility is concerned with relevance for assessing the credibility of the explanations being developed. This leads us to another dimension of “convincingness”.

4.5.3.2. Plausibility

Plausibility, the second dimension of “convincingness”, is concerned with whether (or not) our renditions of the field make sense. Does an explanation of the field seem credible, given

what readers know about their world? Is a field report coherent when assessed in terms of its structure (or genre) and its disciplinary context? A text that convinces in terms of its plausibility has achieved a form of literary authority referred to as *vraisemblance* (Atkinson 1990:39). Plausibility is defined as the ability of the text to connect to the reader's worldview (Walsham and Sahay, 1999) and it addresses the rhetorical strategies used to compose a text that positions the work as relevant to the concerns of the intended audience (Schultze, 2000). While authenticity is concerned with the conduct of fieldwork, plausibility addresses the "write up" phase (Schultze 2000). Plausibility - seeming probable but not proved - is concerned with determining whether 'the findings of the study, whether in the form of description, explanation, or theory, "fit" the data from which they are derived' (Sandelowski 1986:32).

In order to achieve plausibility in this study, the researcher has considered two interrelated components. First, he needed to "make sense" of the data, which means to cope with common concerns, establishing connections to the personal and disciplinary backgrounds and experiences of the readers. For example, the researcher structured the text in a way that is consistent with the academic style as in Chapter Six, i.e., with specified headings and the use of citations (Schultze 2000). Second, he needed also to show a distinctive research contribution to a disciplinary area by identifying gaps in the literature and developing a novel theoretical framework to justify the research and distinguish its contribution (*ibid.*). Through plausibility, case-study texts ask readers to accept that the findings make a distinctive contribution to topics of common concern. Plausibility is achieved by strategies that normalize unorthodox methodologies, recruit the reader, legitimate different situations, smooth contestable assertions, build dramatic anticipation, and differentiate the findings (Golden-Biddle and Locke 1993).

Basically, a careful reader should be able to determine whether the analysis, interpretations and conclusions drawn from the data are plausible (Hammell 2002). Plausibility was used as a means of generating 'thick' explanations of different styles of management accounting change. Such explanations may be labeled 'thick' due to their quality of being deeply rooted in the real-life world of the people being studied. Plausibility may be assessed by determining whether the researcher obtained sufficient data and whether any degree of triangulation was used. Plausibility may also be evaluated through consideration of the proportion of data that has been taken into account in the process of analysis and interpretation: whether data have

been selectively extracted to fit a chosen theoretical or interpretive framework. Authenticity should enable the reader to determine the adequacy of the research process and, further, to assess whether interpretations flow from the data rather than being imposed on the data (Robson 1993; Hammell 2002). As Mays and Pope (1995:110) observed, “As in quantitative research, the basic strategy to ensure rigor in qualitative research is systematic and self-conscious research design, data collection, interpretation, and communication”.

Eyles (1988a:11) promotes the notion of plausibility whereby ‘principles of validation are internal to the discourse itself’ and ‘interpretations must be justified in terms of the presented evidence, so much depends on the coherence of argument and the reason, consistency and honesty of the theorist’. Scapens (2004) claims that internal validity should be replaced by contextual validity or plausibility in case-study research; this will indicate the credibility of the case-study evidence and the resulting conclusions drawn. This study has adopted several different elements to achieve plausibility, by drawing on Scapens (2004). Firstly, the validity of each part of evidence should be assessed by comparing it with other kinds of evidence on the same issue. Other subjects might be interviewed, records checked or observations made. This process of collecting multiple sources of evidence on a particular issue is known as data triangulation. Secondly, researchers should also assess the validity of their own interpretations of the evidence. Feeding evidence and interpretations to the subjects of the study can be helpful in confirming the researcher’s own interpretation. The researcher has shared every element of this study with prominent authors in the literature through participation in different European conferences. Finally, alternative theories or even alternative methodologies could be used to study a specific case. This might open up a diverse range of insights to help interpret the case by using theoretical triangulation.

4.5.3.3. Criticality

Criticality, the third dimension of “convincingness”, is concerned with the imaginative possibilities that field research may provoke (Golden-Biddle and Locke 1993). Can readers construct a larger and more enduring theoretical referent in the field? (White 1987) Is the general well-rooted and articulated in our explanations of the local? (Ahrens and Chapman 2006). Do our explanations of the field “speak to our human and organizational conditions of existence in ways that we find useful and desirable”? (Clegg 2006:861) Through criticality, case-study texts endeavor to encourage readers to re-examine the taken-for-granted assumptions that underlie their work. Strategies used to achieve criticality include carving out

room to reflect, provoking the recognition and examination of differences, and enabling readers to imagine new possibilities (Golden-Biddle and Locke 1993). The researcher has asked some relevant readers from the case-study to critically re-examine assumptions and ideas about management accounting and organizational change as well as NPM reforms. Some critical examples were introduced: ‘user resistance’, ‘change management’, ‘top management support’, and ‘courageous leadership’. In addition, participation in different European conferences helped to add new critical ideas to the study and analysis, and to reconsideration of some steps and sections in the main study.

Criticality thus refers to the ability of the text to attract readers to reconsider taken-for-granted ideas and beliefs (Golden-Biddle and Locke 1993). It involves the ability to propose an understanding of ourselves and others in a new and better way, including new ways of thinking (Schultze 2000). Golden-Biddle and Locke (1993) found that criticality was attained by challenging readers to pause and think about a particular situation, by provoking them to answer questions, and by guiding readers through new ways of thinking (see also, Schultz 2000). The dimension of criticality guides researchers to challenge traditional thought and to reframe the way in which organizational phenomena are perceived and studied (Pozzebon 2003). Thereafter, good case-study research, from a critical perspective, enables a qualitatively new understanding of relevant sections of social reality, providing new alternatives to social action (Alvesson and Skoldberg 2000). Critical interpretive studies should essentially activate such a criterion in order to be able to draw and question prevailing views and norms, and to contradict conventional wisdom and multiple perspectives, which are often in conflict (Pozzebon 2003).

However, in accordance with Golden-Biddle and Locke (1993), the two first criteria, authenticity and plausibility, are viewed as essential to any interpretive research. The addition of criticality is an optional criterion and describes the emergence of a critical interpretive work. Authenticity and plausibility stem from the first two levels (interaction with empirical material and interpretation). Criticality refers to the emergence of a critical interpretation (Pozzebon 2003). In doing so, the concerns with introducing plausible, ‘thick’ explanations and convincing readers of the authenticity of research findings are partially interdependent. In fact, the mobilization of multiple, alternative explanations of an observed phenomenon can reinforce the impression of authenticity which, in turn, shapes a first step in the process of convincing readers of the plausibility of particular explanations (Lukka and Modell 2010).

4.5.4. Qualitative Data Analysis

One of the most significant steps in the research design process is the analysis of data. In this step, data analysis highlights the last three interrelated steps of the research design process: identifying and explaining patterns, theory development and thesis write-up. However, there is no standardized way to conduct qualitative data analysis, although there is common agreement that analysis is an on-going, iterative process that starts in the early stages of data collection and continues during the study. “Qualitative data analysis, wherein one is making sense of the data collected, may seem particularly mysterious” (Campbell and Gregor 2004; Bradley *et al.* 2007:1760). As eloquently argued by Hatch (2002:148),

“Data analysis is a systematic search for meaning. It is a way to process qualitative data so that what has been learned can be communicated to others. Analysis means organizing and interrogating data in ways that allow researchers to see patterns, identify themes, discover relationships, develop explanations, make interpretations, mount critiques, or generate theories. It often involves synthesis, evaluation, interpretation, categorization, hypothesizing, comparison, and pattern finding. It always involves [...] “mind-work”. Researchers always engage their own intellectual capacities to make sense of qualitative data”.

Qualitative research process is thus an iterative, non-linear process involving three interconnected elements: theory, data, and analysis interacting together in a particular process (Creswell 2003). In this way, data collection, data analysis and the theoretical development and verification of propositions are an interrelated and interactive set of processes (Saunders *et al.* 2009). This analysis helps to shape the direction of data collection, especially when an inductive approach is adopted. Unlike the deductive approach, the inductive approach thus seeks to build up a theory that is adequately grounded in the data and represents analysis guidelines (*ibid.*). The central idea is that research analysis constantly compares theory and data - iterating toward a theory which closely fits the data. A close fit is significant for building good theory because it takes advantage of the new insights possible from the data and yields an empirically valid theory (Eisenhardt 1989). Unlike quantitative research, qualitative research allows the researcher to start to collect data and then explore them to assess which themes or issues to follow up and concentrate on (Yin 2003; Strauss and Corbin 2008; Saunders *et al.* 2009). In this regard, Bryman (1988:81) summarizes an argument against the quantitative approach as follows:

“The prior specification of a theory tends to be disfavoured because of the possibility of introducing a premature closure on the issues to be investigated, as well as the possibility of the theoretical constructs departing excessively from the views of participants in a social setting”.

Accordingly, the interactive nature of the process allows the researcher to recognize important themes, patterns and relationships as he/she collects data: in other words, to allow these to

emerge from the process of data collection and analysis. Consequently, the researcher will be able to re-categorize existing data to see whether these themes, patterns and relationships are present in the cases where he/she has already collected data (Strauss and Corbin 2008). In this context, Scapens (1990:275) explains the process of identifying and explaining patterns (data analysis):

“As the case study progresses various themes and patterns should emerge. It is sometimes helpful to prepare models (diagrams, flow charts, etc.) which attempt to link the various themes and issues. In this way missing connections, inconsistencies, etc. can often be identified and avenues suggested for further investigation. As more evidence is collected, it may be possible to expand the model, add new connections, and even re-interpret the evidence collected earlier. The patterns suggested by the model serve both to describe and explain the case. [...] we do not need general theories to explain, it is the pattern discovered in the case which does the explaining. Nevertheless, theories still have their place. Patterns observed in the case may be related to patterns discovered in other cases (prior theories). Consequently, the pattern model developed to explain a case should always be compared to existing theories”.

Several analysis strategies have been proposed to analyze qualitative data (e.g., Patton 1987; Miles and Huberman 1994; Yin 2003; Saunders *et al.* 2009). One of these strategies was adopted in this study and comprises three concurrent processes of data reduction, data display, and conclusion drawing/verification (see, Miles and Huberman 1994, Saunders *et al.* 2009). These processes include two interwoven sub-processes as suggested by Patton (1987: 144): ‘category construction’ and ‘sense making’. The first is the process of bringing order to evidence and categorizing it into patterns and groups; the second is the process of attaching meaning and importance to the analysis, and building relationships and linkages among dimensions in order to obtain explanations and describe patterns. Besides, the researcher has used QSR Nvivo software within the coding process, which helped to manage the data by creating main codes and tree codes. According to Saunders *et al.* (2009), it is possible to group data into three main types of processes: summarizing (condensation) of meanings; categorization (grouping) of meanings; and structuring (ordering) of meaning using description. All of these can be utilized on their own, or in combination, to strengthen interpretation of the data.

The non-current process of data collection and analysis also has implications for the way in which the researcher needs to manage his/her time and organize the data and related documentation (Saunders *et al.* 2009). Hence, the process of analysis is likely to begin at the same time as data collection, as data are prepared for analysis. Accordingly, interviews were recorded and subsequently transcribed (word-processed) (*ibid.*). The process of analysis commenced with the full transcripts of all the interviews. These transcripts were entered and

coded in QSR Nvivo software by reading and rereading data many times with special attention given to the mode of expression (e.g. intonation, pauses, etc.). This was to help recognize the particular issues that resulted from each interview in relation to other evidence. Thus, data reduction took place when common sequences and patterns were spotted and highlighted. Afterwards, similar themes were grouped and classified, such as ROB, GFMIS and MFR. Meanwhile, the detection of any differences in perceptions among interviewees that might disconfirm the patterns previously identified was closely managed. In this regard, similar themes or opinions of the interviewees were explained within the normal body of discussion and analysis, while dissimilar themes were discussed by using direct quotations from the interviewees. These procedures were followed to guarantee the plausibility of the analysis. Regarding QSR Nvivo software as well as other computer software, Scapens (2004:270) argues that:

“I have not found any of them helpful for my research. But I understand that others do find them very helpful. They seem most appropriate when similar questions and issues are covered in a number of different interviews - for example, when structured interviews are used. But in my case research I normally use unstructured interviews and work with the word-processed transcripts”

The researcher, in regard to his experience with QSR software, agrees with Scapens (2004) concerning case-study research. However, QSR can be a good tool to organize and manage massive amounts of data from different sources. In the second process, the data display was an important tool in helping the researcher to integrate all the data into an explanatory framework (see analytical framework in Chapter Seven). This framework depended on a combination of ‘case dynamics matrix’, and ‘event-state network’ displays as suggested by Miles and Huberman (1994)⁷⁰. These displays were adopted “to understand what is happening” and were regarded as “major avenue[s] to valid qualitative analysis” (see Miles and Huberman 1994:11). Their choice is dependent on two factors; first, the specific aspects of the research carried out and, second, the relations that the researcher aims to analyze. They were adopted in this study because the researcher desired to better understand and connect the relations between the issues and themes analyzed previously. These displays supplied an overall view of the subjects under study and were vital in supporting the data analysis to help the researcher's analytical thinking, especially when writing-up the case. Two benefits resulted from their analysis: first, it was found that the government exerted pressures on

⁷⁰ Miles and Huberman (1994) suggested several types of displays for use by qualitative researchers. (1) ‘partially-ordered displays’, (2) ‘time-ordered displays’, (3) ‘explanatory effects matrix’, (4) ‘case-ordered displays’, (5) ‘case dynamics matrix’, (6) ‘causal network matrix’, (7) ‘event-state network’, and, (8) ‘conceptually-ordered displays’, among others.

public organizations, especially JCO, to adopt their budgeting systems (ROB and GFMIS) and to follow the ‘managing for results’ approach; second, it was found that the JCO, like other public organizations, was not passive but, rather, active both in accepting and facilitating enforced changes (for ‘thick’ explanation see Chapters Five, Six and Seven).

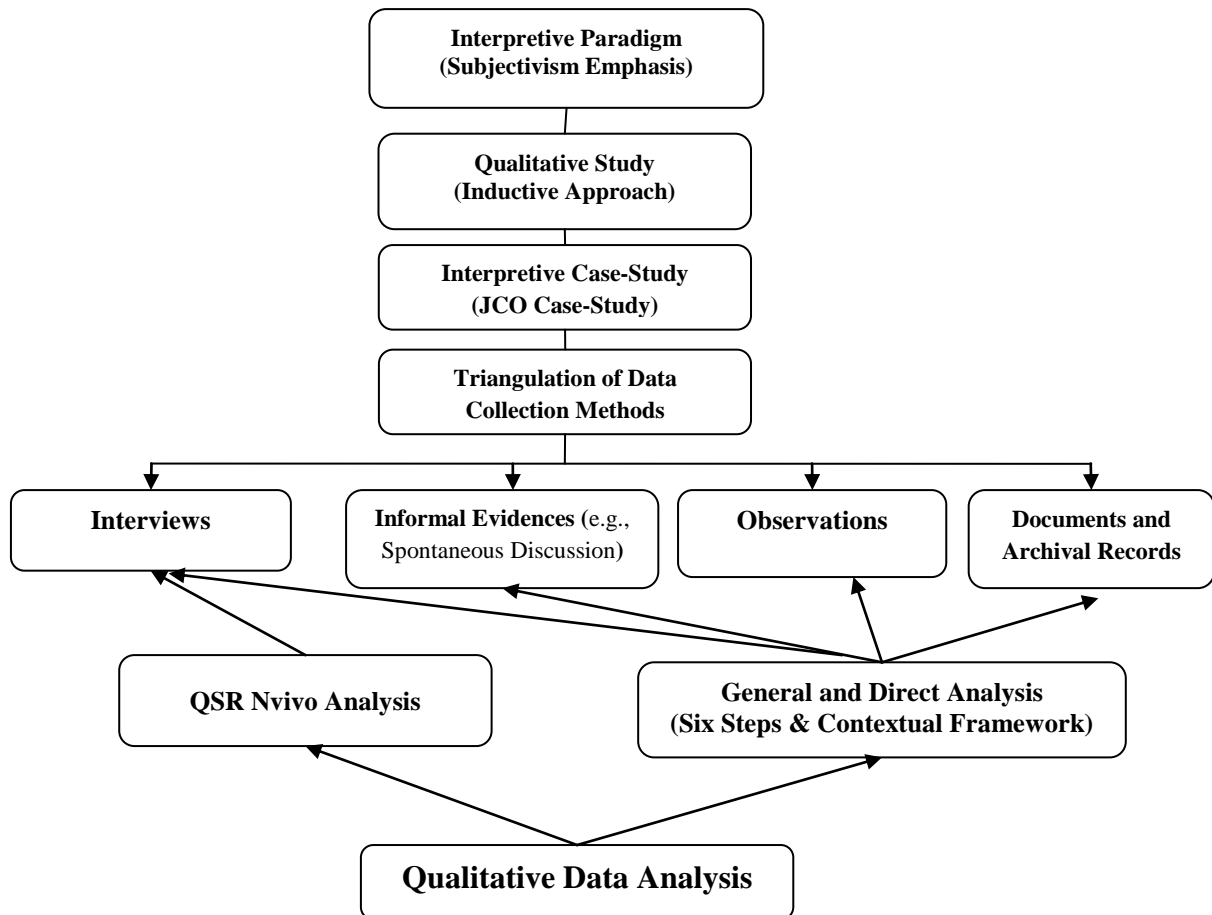
The third process followed was the drawing and verification of a conclusion. After major patterns, themes and groups had emerged from the analysis, and interrelationships amongst all constructs had been built up, rival explanations were formulated, systematically compared and analyzed (Yin 1994). These explanations resulted from connecting the findings of the study with the theoretical framework. This indicates that the constructs, before being achieved, were confronted with existing institutional theories on the subject. Hence, the contextual framework was used as the unit of analysis. The unit of analysis in all phases was the ‘institutions’ rather than the rational behavior of individuals (Hodgson 1988). During this process, the researcher gathered further data (from JCO and government) and obtained feedback from interviewees, ultimately concluding the process of rival explanations formulation when an explanation was confirmed from multiple sources of evidence and became stronger than all the others (Eisenhardt 1989). By applying both these processes - investigating rival explanations and obtaining feedback from interviewees - together with the contextual framework, the researcher concluded that the explanations developed matched the criteria of authenticity, plausibility and criticality (Miles and Huberman 1994; Major 2002; Yazdifar 2004).

The basic strategy in this study to ensure rigor in qualitative analysis is systematic and self-conscious research design, data collection, interpretation, and communication. In this study, qualitative raw data were collected in a relatively unstructured form, such as voice-recordings or transcripts of interviews. The main way to ensure authenticity of analysis is to maintain meticulous records of interviews, observations and documents and to document the process of analysis in detail. The interpretative procedures were often decided on before the analysis. Thus, QSR Nvivo software was available to facilitate the analysis of the content of interview transcripts and other evidence. A coding process was developed to characterize each expression or theme, and transcripts could then be coded in accordance with the topic. Afterwards, the researcher made an initial selection of interviewees, groups and codes, analyzed these data, and produced a preliminary theoretical explanation before deciding which further data to collect and from whom. Once these data were analyzed, refinements

were made to the theory, which may in turn guide further data collection, as in the second and third stages. The relation between data and explanation was iterative and theoretically-led. The analysis was theoretically-informed and relevant to the research questions (see Mays and Pope 1995).

The plausibility of the data analysis was enhanced by using a triangulation of data sources, especially the use of semi-structured and unstructured interviews (repeated interviews), and by asking probing questions to ensure further clarification (see Nor-Aziah and Scapens 2007). Kvale (1996) affirms that analysis can take place during the collection of data as well as after it. The researcher has thus considered the following steps in the data analysis: 1) organize and prepare the data for analysis; 2) read all data, get a sense of the whole (identify where they are overlap, where they are different, and think about other issues); 3) begin detailed analysis with coding process by using Nvivo Software; 4) generate a description of the data as well as categories or themes for analysis; 5) represent themes (writing, recording, observation, etc.); and 6) interpret and make meaning out of data (see, Patton 1987; Miles and Huberman 1994; Creswell 2003; Yin 2003; Saunders *et al.* 2009). Besides, the researcher used analytical aids (i.e. interim summaries, self-memos, and a researcher diary) to recall the context and content of interviews or observations as well as informing the research analysis (Saunders *et al.* 2009).

As mentioned before, at each stage of the analysis, evaluation reports for the case-study were prepared (Patton 1987). These were in the form of ‘working papers’ presented in different European conferences about management accounting change, including the following: Accounting and Audit Convergence 2011 Convention in Romania; NARTI 8th Annual Doctoral Colloquium in Newcastle; 6th ENROAC Doctoral Summer School in Italy; MARG 2012 at Aston Business School/Birmingham; and other. The researcher’s endeavors were twofold: first, to make sense of all data and to obtain a deeper of about the case; second, to ensure that the researcher's interpretations of the case were coherent, critical and plausible. In doing so, he was able to analyze the data according to the previous six steps of the research design and contextual framework. Figure (4.15) presents a general research framework reflecting research design process that followed in this study.

Figure (4-15) Research Methodology and Methods Framework

(Source: Modified from Hoque and Rossingh 2006:32)

4.6. Conclusions

This chapter has discussed methodological issues that are related to the investigation conducted in this study. The study has started with the research philosophy and paradigm, drawing on a single interpretive paradigm rather than the multi-paradigm. Accordingly, various research approaches were discussed after which an inductive approach was preferred. In this light, the qualitative approach seemed to be relevant to the research paradigm and approach, as well as to the subject of study. Along with the qualitative approach, a case-study strategy was adopted. The rationale is that a case-study is more appropriate for the subject of study, and it can provide a deeper understanding of specific phenomena in response to frequent calls in management accounting literature. Case-study research is more than simply conducting research on a single individual or situation. This approach has the potential to deal with the simple in complex situations. It allows the researcher to answer ‘how’ and ‘why’

types of questions while taking into consideration how a phenomenon is affected by the context within which it is situated (Baxter and Jack 2008).

Six steps of the case-study strategy have been used in a logical sequence. These steps are preparation, collecting evidence, assessing evidence, qualitative data analysis – i.e. identifying and explaining patterns, theory development, and report writing (Ryan *et al.* 2002; Scapens 1990). According to the second step, Saunders *et al.* state: “If you are using a case study strategy you are likely to need to use and triangulate multiple sources of data” (2009:146). The triangulation of data (i.e. interviews, observations and documents) was undertaken by depending on the previous six steps and contextual framework inspiring the study. Notably, this study has used ‘convincingness’ criteria (that is, authenticity, plausibility and criticality) in place of validity and reliability criteria to assess the research quality and analysis. This in turn helped to provide more coherent and plausible analysis and results for the study.

The following Chapters from Five to Seven explain and analyze in more detail the case-study dynamics both outside and inside the JCO. These chapters will be structured in accordance with the structure of the contextual framework to make sense of the processes of change at three levels of institutional analysis (as will be analyzed in Chapter Seven): political and economic levels, and organizational field level (as will be described in Chapter Five); and organizational level within the JCO case-study (as will be explained in Chapter Six). Chapter Five thus presents the dynamics and pressures exerted by the government on public organizations, especially JCO. Chapter Six provides a ‘rich’ description of the dynamics and processes of management accounting and organizational change inside the JCO case-study. In this context, the study discusses the interaction process between organizational levels in relation to management accounting. Chapter Seven provides the ‘thick’ explanation of the JCO case-study infused by the contextual framework and introduces the main findings of the study. The research design process, as discussed in the present chapter, has been applied in these three chapters as well as the thesis as a whole, paying more attention to ‘convincingness’ criteria and the research questions.

CHAPTER FIVE: THE JORDANIAN CONTEXT

5.1. Introduction

Jordan is considered an emerging free-market economy. Like many other developing countries, Jordan has faced substantial environmental challenges in the past two decades. These challenges are intensified by the scarcity of natural resources, large budget deficits, soaring levels of debt, structural unemployment, high tax pressures, low quality of public services and bureaucratic public management. The location and regime of Jordan has helped the country to form strategic relations with the EU and the US through several international agreements. As a result, Jordan launched the National Agenda in 2005, which represented a remarkable milestone in efforts to build a modern Jordan and address these challenges facing the country. The National Agenda (NA) initiative aimed to achieve sustainable development by implementing various public sector and fiscal reforms, and with the support of international donors and consultants, to set Jordan on a productive reform path towards rapid economic and political development (see NA 2005). Consequently this led to transformation from bureaucratic management into the NPM doctrine. The changes in the Jordanian public sector towards NPM were under way by 2008, especially after the implementation of the ‘managing for results’ approach including budgeting systems, i.e. the launch of ROB in 2008 and GFMIS in 2010.

The main aim of this chapter is to explain the emergence and diffusion of management accounting systems as a result of interaction between both the political and economic levels and the organizational level through the governmental field level. In so doing, this chapter, after the introduction, illustrates the characteristics and challenges of the Jordanian political and economic environment. The third section describes the reform initiatives that affect political and economic contexts, especially public sector and fiscal reforms. The fourth section focuses on the government environment and its orientation toward NPM ideas, and discusses ROG (which is termed, in this study, the ‘managing for results’ approach). The fifth section explains the emergence and diffusion of management accounting systems, especially budgeting systems (ROB and GFMIS), as a part of the ‘managing for results’ (MFR) approach. The discussion is concluded by recognizing the interaction process between three levels of institutional analysis, which has accordingly been reflected in the interaction framework.

5.2. Jordanian Political and Economic Environment

5.2.1. Brief History

In the sixteenth century, Jordan submitted to the Muslim Ottoman Empire and was governed from Damascus. Taken from the Turks by the British after World War I, Jordan, then formerly known as Transjordan, was separated from the Palestine mandate in 1920, and in 1921 was placed under the rule of Amir Abdullah I bin Al-Hussein. After World War II, Jordan gained its independence, but remained under British sponsorship. In these times, it witnessed periods of instability, first as a result of the assassination of its ruler Amir Abdullah in 1947, and second due to King Talal's illness between 1948 and 1952. Talal's son, Hussein, born in 1935, succeeded him. Many would argue that Jordan actually became independent only after the accession of King Hussein in 1952 (Al-Hyari 2009).

The country's long-time ruler was King Hussein (1953-99), a pragmatic leader who successfully navigated competing pressures on regional and international fronts. Jordan has faced numerous challenges to its development; there is a general lack of natural resources and the country has suffered the effects of two periods of Israeli occupation - of Palestine in 1948 and of the West Bank in 1967, which was previously a part of Jordan. In 1989, the King reinstituted parliamentary elections and initiated a number of reforms including a gradual political and economic liberalization (CIA 2012). Between 1989 and 1993, Jordan held free and fair parliamentary elections. Since 1989, all aspects of the Jordanian political and economic reforms have recognized the commitment to increased democracy, privatization, economic liberalization and social consensus construction in order to increase stability and achieve the institutionalization of the Jordanian position and currency. These reforms actually came after the economic crises, i.e. devaluation of the Jordanian currency (the Dinar) in 1988 and Gulf Crisis in 1990 (Al-Shiab 2003).

King Abdullah II, eldest son of King Hussein, assumed the throne after his father's death in February 1999. Since then he has implemented new economic and political reforms. In the early years of his reign, he refocused the government's agenda on economic reforms, to be attained through the establishment of new laws such as the privatization law, investment promotion law and free zones law. Under his initiatives, the government has adopted a more international approach to the economy through dynamic privatization schemes. The country acceded to the World Trade Organization (WTO) in 2000 and concluded free trade agreements (FTAs) with the United States and the European Free Trade Association (EFTA)

in 2001. Jordan has also recently signed FTAs with the European Union and Singapore. Regionally, it is a member of the Greater Arab Free Trade Area (GAFTA). As a result, approximately three quarters of Jordan's exports go to FTA partners (WB 2008).

The government, under the King's orientations, pursued the implementation of the long-term goal of economic and political reforms and true democratic reforms⁷¹. To increase its prosperity and social welfare, Jordan is pursuing a strategy of private sector-led and public sector-enabled economic growth. The King Abdullah II Award for Government Performance and Transparency demonstrates his Majesty's aspiration to sustainable development and globally competitive public sector organizations. Without this strong national mandate, reform initiatives would have little chance of success. In several aspects, however, outdated institutions, rules, routines, laws and regulations that preside over government and quasi-governmental organizations have restrained public organizations in Jordan from striving towards development and progress.

More recently in early 2011, in the wake of the unrest of the Arab Spring, especially the Egyptian and Syrian conflicts, there was a political reaction in Jordan that greatly influenced the Jordanian economy. Additionally, a wave of dissatisfaction with the government was very evident, including intensification of frequent protest activities in different parts of Jordan, especially in Amman, to push the government to accelerate political and economic reforms and in protest against government corruption, budget deficit, inflation, rampant poverty and high unemployment. In response, King Abdullah replaced his prime minister a number of times and shaped two commissions - one to launch specific reforms of Jordan's electoral and political party laws, and the other to consider partial constitutional amendments (CIA 2012).. As a result the government implemented many public sector and fiscal reforms alongside the political reforms.

5.2.2. Jordanian Economy and its Challenges

Jordan's economy is an open economy, although it is one of the smallest in the Middle East with limited natural resources supported to a significant degree by foreign loans, international aid, and remittances from expatriate workers. The main internal sources of national income are customs and taxes revenues, Jordanian exports, and foreign investments (see IMF 2004).

⁷¹ These reforms have been elements of the regime's national campaigns including the "Jordan First" (al-Urdun Awallan) initiative in 2002, the National Agenda in 2005 and the "We all are Jordan" (Kulluna al-Urdun) program in 2006.

Jordan experienced a boom in economic growth as a result of oil price rises in the late 1970s and early 1980s. The economic growth continued until the economic crisis in 1988, which caused the devaluation of the Jordanian currency, and rising oil prices, which created a major slowdown in the regional economy. To revive a collapsing economy, the government took major steps to embark on an extensive expenditure program financed by external borrowing over a long period of time. Since 1988, Jordan has struggled with a considerable debt burden and increasing unemployment. This ultimately led to a serious economic crisis in 1989 (see ER 2012). The main obstacles hindering Jordan's economy are scarce water supplies, complete reliance on oil imports for energy, and regional instability (*ibid.*).

Jordan has a market-oriented economy; however, it is handicapped by a severe scarcity of natural resources. Jordan's main resources are phosphate, potash, and cement industries, which explains why Jordan has been suffering from a continual deficit in its trade balance (Al-Hyari 2009). In addition, other economic challenges for the government included constant high rates of poverty, unemployment and inflation, and a large budget deficit (CIA 2012). The deficits in the trade balance and budget have existed since independence. Although the trade deficit still continues to increase, its ratio to GDP has declined. This was due to a slight reduction in the rate of growth of imports and a steady expansion in domestic exports, which reflected an expansion in the productive capacity of the Jordanian economy (Al-Hyari 2009).

Unlike the US or UK, the Jordanian economy is not industrialized. However, it is attempting to become industrialized by encouraging small to medium-sized producers to sell their produce in foreign countries as a way of increasing employment and expanding tax bases. At the same time the global economic slowdown and regional turmoil have also depressed Jordan's GDP growth and other economic indicators (as indicated in table 5.4) The following table displays the fluctuations (imbalances) of economic indicators over time including budget deficit, exports and imports, foreign investments, inflation, unemployment, and public debt etc.

Table (5-4) The Fluctuation in Economic Indicators over time

Economic Indicators	2007	2008	2009	2010
GDP (Million \$)	17765.4	22696.9	25092.3	27573.5
GDP Growth (%)	8.5	7.6	2.3	3.1
Inflation - CPI (%)	5.4	14.9	-0.7	5.0
Unemployment (%)	13.1	12.7	12.9	15
Foreign Direct Investment (% of GDP)	14.8	12.5	9.7	6.2
Workers' remittances (% of GDP)	19.3	16.72	14.34	13.2
Export Growth (%)	2.3	-12.1	-2.7	7.6
Import Growth (%)	6.4	3.1	-7.8	7.1
Current Account Balance (Million \$)	-2874.8	-2038.1	-1125.5	-1311.5
Public Debt (% of GDP)	71.0	58.1	61.4	70
External Debt (Million \$)	8371.1	6579.9	6615.0	7821.8
Total Debt Service (Million \$)	769.6	2703.1	584.7	653.5
Cash Surplus or Deficit (% of GDP)	-4.5	-2.1	-8.5	-9
Customs and Tax Revenues (% of GDP)	29.9	28.1	24.8	22.7
Government Consumption (% of GDP)	23.3	23.6	23.5	21.4
Public Expenditure on Education (% of GDP)	-	-	-	-
Public Expenditure on health (% of GDP)	8.6	9.4	9.3	-
R&D Expenditure (% of GDP)	-	-	-	-
Military Expenditure (% of GDP)	6.1	6.3	6.1	-

(Sources: The World Bank; Central Bank of Jordan; World Development Indicators 2011; International Monetary Fund (IMF); World Economic Outlook 2011; Stockholm International Peace Research Institute (SIPRI); Military Expenditure Database 2011; and CIA 2012)

Notwithstanding the unquestionable successes attained by the reform process, the Table 5.4 shows that the country continues to face numerous economic and social challenges such as a high fiscal deficit of almost 9% in 2010, and public debt of over 70% of GDP in 2010, which threatens to slow down the rate of growth. External aid remains vital and economic growth scarcely encourages the workforce to join the labor market every year. Unemployment is high in the country, particularly among young people. However, the substantial remittances (over 20% of GDP) sent back by Jordanians living abroad have enabled Jordan to finance levels of consumption and investment far in excess of what is sustainable by domestic income. Imports of crude oil are a major drain on the economy and on its limited foreign exchange. The country has substantial deposits of phosphates and potash. But these products, as is the case for other raw materials, are subject to price fluctuations and unstable demand. Jordan also suffers from a chronic water shortage and is vulnerable to droughts, and much of its land is too arid for agriculture (El-Sakka 2007).

Besides, there has been a deficit in the trade balance and/or budget since the establishment of the state (Al-Hyari 2009). The budget deficit started to increase again during the period of 2011-2012, reaching over 10% of GDP. The trade balance remained highly unstable during this period, although foreign currency reserves remained high enough to safeguard against short-term fluctuations. The indicators discussed above negatively affected the Jordanian economy's performance, as the trade deficit and the associated current account deficit transformed Jordan from a closed economy and bureaucratic administration in the 1980s and 1990s to a country with a more open economy and NPM doctrine by the 2000s. These macroeconomic indicators have put economic and political pressures on the state and have allowed it to avoid more drastic measures by adopting a real reform path. To tackle the internal and external imbalance, the government has adopted economic reform programs since 1989, supported by the International Monetary Fund (IMF) and the World Bank. These reform programs have contributed significantly to reducing the macroeconomic imbalance, resulting in satisfactory growth performance in terms of GDP with an increased role for the private sector in the economy.

However, external dependency in the Jordanian budget remains substantial. Large elements of the budget consist of direct aid and flexible loans from major international and regional donors. On the one hand, increasing levels of Arab aid appear to be related to intra-Arab rivalries and the maintenance of the regional status quo; on the other hand, Western and multilateral aid is conditional upon political liberalization, free-market economic reforms and the enhanced efficiency of the administrative bureaucracy - toward NPM ideas (CIA 2012). Such reform-based donor projects aimed at establishing a market economy have been successful. Furthermore, macroeconomic policies largely influenced by the central bank's responsibility to keep fixed exchange rates relative to the U.S. dollar stable have been successful in providing economic stability for the whole economy. However, structural problems continue, remaining unaddressed by the government. A number of oligopolies remain, as well as barriers to access for prospective new actors in several economic sectors. And income differences within Jordanian society remain high and have increased since the dawn of the new millennium (*ibid.*).

Jordan has been acknowledged among international organizations and donors as employing resources relatively efficiently compared to other middle-income countries. World Bank data from the Aggregate Governance Indicators place Jordan in the middle of the third upper

quartile in terms of government effectiveness, displaying an upward trend since 2007. Although a number of new institutions have been constructed and reform programs implemented under the guidance of international donors, a number of limitations remain. In particular, favoritism and kinship still play an influential role within the process of recruiting new state employees among public administration staff. In addition, major structural reasons and increasing international prices have led to progressively rising budget deficits since 2008, although the government has attempted to increase revenues and restrain expenditures. While budget deficits remain a continuing problem, the government has had some success in improving its efficiency of resource use through its reduction of fuel subsidies and power sources (CIA 2012).

As a result, the Jordanian government has consistently run large budget deficits that have led to rising levels of debt, thereby hindering its ability to invest in reform enablers. The government and the King formulated a new “National Agenda” in their attempt to tackle these challenges. The National Agenda (hereafter NA) was established by a Royal Decree in the 2005. The NA ensures a process of “national inclusion” by involving stakeholders from the various sectors of society with the aim of achieving a fair distribution of the expected benefits of social, economic and political reforms (NA 2005). Thus, the ultimate objective of the NA is “to achieve sustainable development through a transformation program that puts Jordan on a trajectory path toward fast economic growth and greater social inclusion, resulting in comprehensive strategies and initiatives developed to realize social, economic and political development, evaluate and monitor progress of its implementation according to detailed performance indicators” (NA 2005:4).

With the intention to manage these challenges and obtain the benefits of the opportunities created by the NA initiatives, the Jordanian government has changed and modernized its public management and budgeting system to be more focused on results. Consequently export-led growth has become higher, foreign direct investment is increasing, and poverty and unemployment have been reduced (Cassing and Salameh 2006). Furthermore, the government has striven to coordinate conflicting objectives and interests, but has been only moderately successful in this task. Over the last decade, several capacity-building initiatives linked with public-sector and fiscal reforms, including ROB and GFMS systems, have been implemented under the umbrella of NA and NPM. These systems highlight a more general problem of policy coordination. Recently, in 2011, the government introduced two economic relief

packages and a budgetary enhancement, largely to improve the living conditions for the middle and poor classes.

5.3. Political and Economic Reforms

The conditions and challenges in the Jordanian political and economic context created pressures for change at the societal level, which forced the Jordanian government to establish the criteria for effective financial management in the public organizations. The political and economic reforms were resulted in setting in motion the institutionalization of certain financial management processes by focusing mainly on the MFR approach, which was reflected in the public sector and fiscal reforms. These reform plans were developed by the government to address the implementation of the management accounting systems, especially budgeting systems (i.e. ROB and GFMIS). The Jordanian reform process can be divided into two stages: external initiatives by IMF that took place between 1989 and 2004, and internal initiatives by the government that started in 2005. The following sections explain the relationship between the reform process in response to pressures (challenges and risks) and the introduction of NA, especially public sector and fiscal reforms.

5.3.1. The Reform Path and its History

During the 1980s, Jordan's macroeconomic imbalances began to deteriorate, accompanied by uncertain difficulties represented by debt management, budget cuts and rescheduling of loans. These imbalances peaked in 1989; therefore, Jordan started a prudent economic adjustment process in cooperation with the IMF and the World Bank and with support from the International Community. This was Jordan's first engagement with the IMF with the intention of undertaking an organization economic reform program to re-establish a sustainable economic growth model. The program, which took place from 1989-1992, included a gradual reduction in fiscal expenditure, removal of trade barriers, and the lifting of subsidies on all fundamental goods. It has led to a radical change in the former economic and social practice of "paternalism", which had been the prevailing norm in the conduct and thinking of the government for decades (Harrigan *et al.* 2006). In tandem, the political transformation process began in 1989, when parliamentary elections were held after a deferment of over three decades, in conjunction with a period of sensitive social turmoil and weak economic performance. As a result, the continuation of parliamentary life embodied a new democratic transition, which has begun to manifest itself over the last decade by adopting economic, political, administrative and judicial reforms, with a solid obligation to protect equality,

human rights and freedom. The process of democratization that was gradually implemented allowed for the legitimating of political parties and an evolutionary change from the existing political practices since 1992 (see ER 2012).

For both pragmatic and ideological purposes, Jordan had never nationalized businesses, seized private assets without compensation or, hence, implemented socialism. Although the economic system was liberal and market-oriented, the government continued to play a large economic role, both in development planning and as a financier (Metz 1989). Therefore, the overall definitions of the public-private partnership and government-citizen relationship had to be reformulated. The government had progressively extricated itself from the role of mass employer and the producer of goods and services, taking on a regulatory role instead. As a result, the private sector has started to engage in macro-economic activities, and these two trends have enabled the country to move rapidly towards globalization (see ER 2012).

During the 1990s, sequential programs of economic transformation were implemented under the supervision of the IMF and the World Bank for the periods of 1992-1994, 1994-1996 and 1996-1998, respectively. These programs were necessary for the rehabilitation of the regulatory framework and the amendment of the overall legislative structure. Thus, Jordan succeeded in sustaining an efficient macroeconomic management policy, which involved the gradual reduction of high fiscal imbalances and the implementation of a structural reform agenda. In line with the stabilization efforts and political transformation in the 1990s, the government accelerated the economic reform and democratic transition process by adopting a new reform program from the IMF for the years 1999-2001. During the regime of King Abdullah II in particular, liberal economic policies were introduced.

According to the directions of the King, the “Jordan First” initiative was launched to construct an ambitious model of a liberal and democratic homeland, and was necessary for the imminent political and economic reforms. The Jordan First initiative was an attempt to define a new social harmony among citizens, as it highlighted the superiority of Jordan’s interests above all other considerations and vested interests and redefined the state-individual relationship (see ER 2012). Unlike previous reform programs which fully focused on the economic dimension, the Jordan First initiative was a constructive approach that aimed to open new paths for policies and reform programs in development, education, fiscal matters, culture, and information and communication technology. As a result of the combination with

free economic reforms, Jordan witnessed a dynamic privatization scheme and a rapid integration into the world economy, as evidenced by Jordan's accession to the World Trade Organization (WTO) in 2000; Jordan also signed a Free Trade Agreement with the United States and a Partnership Agreement with the European Union in 2001, in addition to its membership of the Greater Arab Free Trade Agreement, the AGADIR Agreement, and TRIPS agreement. These agreements have been considered key drivers of economic growth and innovations diffusion including accounting systems. Moreover, Jordan achieved a quantum leap in increasing exports and reducing imports, especially Jordanian exports from 'Qualifying Industrial Zones' to the United States with duty-free exports.

Accordingly, the government, in cooperation with the IMF, introduced a Social and Economic Transformation Program (SETP) as a new initiative for the years 2002-2004. The SETP aimed at achieving social and economic sustainable development, and improving the quality and standard of living for citizens. This program aimed to empower citizens to have an equitable opportunity to participate and engage in the democratization and globalization process. Simultaneously, the SETP was designed to reinforce the resilience of the Jordanian economy to external pressures by accelerating the pace of reforms (see ER 2012). At the same time, the reforms strategy also focused on human resources development, by fostering excellence, creativity, innovation, competitiveness, productivity, global standards and entrepreneurial spirit (see ER 2012). The government recognizes that the development of human resources is the cornerstone of sustainable development, and is the major source of improving the welfare of citizens. Hence, it can adapt to the global change from a resource-based to a knowledge-based economy by enhancing student learning capabilities, analytical skills and computer literacy at every stage of the education process. Thus, the educational reform was based on the premise of redefining literacy as the ability to speak English and use the Internet effectively, which will ultimately enable citizens to participate and engage in the democratization and globalization processes (*ibid.*).

Furthermore, public services have also been progressively viewed by the government as a significant factor in the context of wider economic and social development (Broadbent and Guthrie 2008), with a presumption that these 'public services' will be available for all members of society in an equitable manner. In this context, a pertinent example of the World Bank's aims (2007) can be quoted here: "A well-functioning public sector that delivers quality public services consistent with citizen preferences and fosters private market-led

growth while managing fiscal resources prudently is considered critical to the World Bank's mission of poverty alleviation and the achievement of millennium development goals"⁷² (*ibid.*). In this regard, accounting was considered a significant technology; although what it can do and what it is perceived to do is not necessarily the same thing (*ibid.*).

In the meantime, the King Abdullah II Award (KAA) for Excellence in Government Performance and Transparency and TQM principles was launched. Accordingly, a radical change in governmental culture has taken place; however such change is not without cost. The new approach has problems, not the least of them the disruption to standard operating procedures and poor morale. There appeared to be a long way to go before a new 'results-based management' could emerge, although there was no going back to the traditional approach of public administration (see Hughes 1998). The government thus introduced a new reforms agenda entitled "Jordan's Vision for the future: the Reform Agenda" in 2004. The government adopted a systematic public administrative reform process to design a system of governance that would ensure the efficient allocation of public resources and achieve fiscal justice. The reform process focused largely on decentralizing the decision-making process and constructing local capacity by improving the quality of public services through training and education, in addition to introducing accountability mechanisms, and enforcing budget limits and sound financial practices. Most importantly, the local organizations also became involved in wider national objectives of poverty reduction and increasing the living standards of citizens (see ER 2012).

To conclude, since 1989 Jordan has successfully implemented various economic reform programs to overcome the major imbalances and to recover macroeconomic stability as a precondition for sustainable economic growth. Most of the targeted objectives located in these programs have been achieved and, in some cases, surpassed. Table (5.5) displays the positive impact of IMF reform programs for the period between 1989 and 2004, including 1989-1992, 1992-1994, 1994-1996, 1996-1998, 1999-2001 and 2002-2004, on macroeconomic indicators in Jordan.

⁷²See, for more details: <http://www.worldbank.org/>

Table (5-5) Macroeconomic Indicators, 1989 and 2004

Macroeconomic Indicators	1989	2004
Real GDP Growth	-13.4	7.2
Inflation, % change of CPI	25.7	3.5
Budget Deficit (including grants), % of GDP	-10.1	-2.7
Budget Deficit (excluding grants), % of GDP	-21.7	-12.8
Foreign Reserves, million US\$	130	4824
External Debt, % of GDP	190	66

(Sources: MOF, Central Bank of Jordan, and Department of Statistics)

It is pertinent to mention here that all the previous reform programs have focused on a particular part of the economic and political context; there is a need to develop a more comprehensive reform program to include all aspects of economic and political context. Having realized this, the government has responded by developing a comprehensive “National Agenda” for social, economic and political reforms to evaluate and monitor the progress of its implementation in accordance with consistent strategic plans. Whether the initiatives included in the NA reflect a clear vision of a set of mechanisms to achieve national objectives will be discussed in the following sections.

5.3.2. The Introduction of National Reform Agenda (NA)

Since the end of the IMF reform programs, national economic and social reform programs are being adopted to benefit from the momentum gained during the past 15 years with the support of the IMF and other international donors. In 2005, the national economy in general and the general budget in particular were challenged by a sharp increase in international oil prices and a budget deficit combined with a sharp drop in external grants. Jordan has continued socio-economic and political reforms by depending significantly on the efficiency and effectiveness of its public administration. The government has thus launched the ‘NA’⁷³ as an umbrella for national reforms spanning the period 2006-2015; it is also a way of creating a comprehensive strategy for social, political and economic transformation. The main goal of the NA was to attain sustainable development through a comprehensive transformation program that places Jordan on a real reforms path toward fast economic growth and greater social inclusion, resulting in comprehensive strategies and initiatives developed to achieve socio-economic and

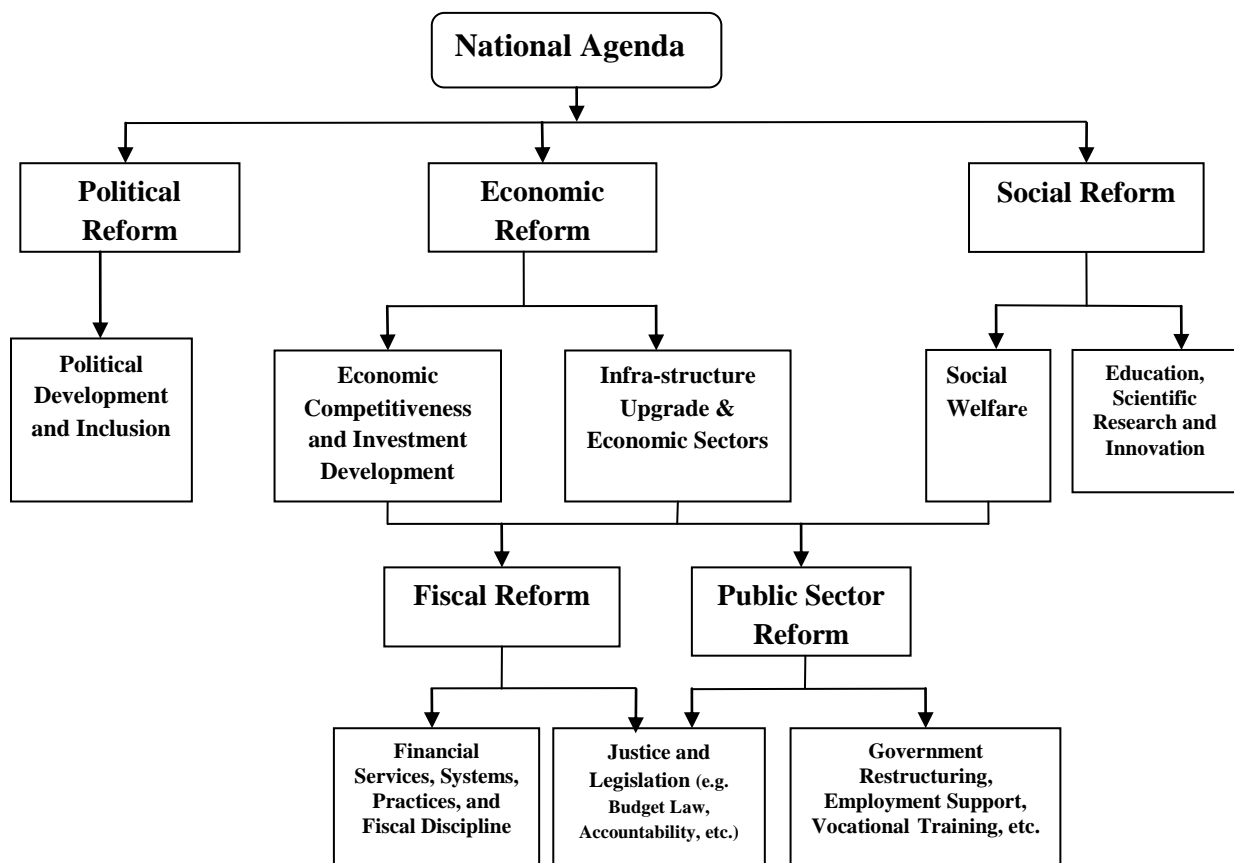
⁷³ The National Agenda Steering Committee was formed by a Royal Decree issued on the 9th of February 2005, to develop the National Agenda. The Committee comprised representatives from the Government, Parliament, civil society, the private sector, media and political parties.

political development, and evaluate and monitor the progress of its implementation in accordance with comprehensive performance indicators. Thus, the NA is regarded as the most important and comprehensive Jordanian charter for reform in the various national spheres.

To ensure success, the Jordanian government adopted a holistic development approach, rather than a piecemeal and fashion process, in partnership with the private sector and simultaneously addressed all social and economic challenges, while phasing their strategies according to evolving economic conditions. Unlike previous reform plans that fully focused only on the economic dimension, the NA adopted a holistic approach to address challenges facing Jordan by setting initiatives for the social, economic and political reforms (see NA 2005). The NA emerged to specify the state priorities. In this regard, a major process of change was required, by depending on past efforts, to develop public services that are focused on delivering results. This required many improvements in the structures, functions, financial management systems, business processes and working procedures. In fact Jordan needed to develop and use the capacity and motivation of public servants themselves (see NA 2005). Such an effort was significant in order to differentiate the NA from past reform programs. Therefore the NA was launched on two fundamentals: the Jordanian Constitution and past reform programs. It has also been planned and built upon the principles adopted by the 'National Charter' and the 'Jordan First' initiatives, as well as the strategies and plans developed by the public organizations during the past decade (*ibid.*).

The NA initiatives were developed along with three main dimensions (see figure 5.16). *Firstly*, government policies and reforms involved fiscal reforms intended to stimulate economic development and the improvement of social welfare and security. *Secondly*, human rights and freedoms comprised social inclusion and welfare, global inclusion, education, scientific research and innovation. *Finally*, there was infrastructure upgrading and development of economic sectors (see NA 2005)⁷⁴.

⁷⁴ Although the holistic nature of the approach adopted involves considering all the different sectors and their interrelations, some priorities emerge. For each of these, the National Agenda develops suggested strategies and reforms and includes certain targets to be realized. Political reform and good governance are given a high priority. The National Agenda includes a number of draft laws on sensitive reforms including political parties, elections, and civil society. The economic reforms will continue. Macroeconomic stability and reduction of fiscal imbalances remain a priority, with proposals for reforming the taxation system and phasing out oil and food subsidies. The Agenda also sets up objectives for developing small businesses, and improving the investment environment and the competitiveness of some specific sectors. Improving access to infrastructure and basic services is a clear objective in addition to the particular emphasis on addressing the key challenge of job creation, by reforming the vocational training system (EU 2007).

Figure (5-16) Developmental Dimensions of National Agenda

(Source: Author)

These reforms organized in the above model are articulated and implemented in three phases of the transformation process in overall socio-economic and political development. The first phase spans a period of five years (2007-2012), and focuses on creating employment opportunities for all Jordanians by promoting export-oriented, labor-intensive industries, financial management and services, education, infrastructure and legislation regulating political life. Public sector and fiscal reforms drawing on NPM ideas are manifested clearly in this phase. The second phase covers the future period of 2013-2017, and focuses on gradually upgrading and strengthening the industrial base and preparing the ground for the development of high value-added sectors in the knowledge economy in the third phase. The third phase to be implemented from 2018 onwards will be represented in the transformation process to world class competitor in the knowledge economy (see NA 2005).

The overall aim of the NA is to improve the quality of life and standards of living of Jordanians through the creation of income-generating opportunities. Table (5.6) describes the targets (performance indicators) of NA expected to be achieved over three transformation

phases. These key performance indicators (KPIs) were established to monitor the progress of reform dimensions within NA. Thus, the NA initiatives are measurable through clear sets of KPIs (*ibid.*).

Table (5-6) Main National Agenda Socio-Economic Targets

National Agenda Indicators	2004	Target (2012)	Target (2017)
	<i>Phase 1</i>	<i>Phase 2</i>	<i>Phase 3</i>
Average Annual Real GDP Growth ⁷⁵	5% ⁷⁶	8%	7%
Public Debt as a Percentage of GDP	91%	63%	36%
Budget (Deficit)/Surplus as a Percentage of GDP, Excluding Grants	(11.8%)	(3.6%)	1.8%
Capital Investments as a Percentage of GDP	21%	21%	24%
National Savings as a Percentage of GDP	13%	23%	27%
Net Exports/Imports in US\$ Billion	(2.4)	(1.7)	(0.9)
Unemployment as a Percentage of Active Population	12.5%	9.3%	6.8%

(Source: NA 2005: 7)

Along with the NA, an obvious mechanism was developed to measure implementation of the initiatives and to evaluate the impact of such reforms. Clearly, it has also included measurable targets for each initiative as well as the agenda as a whole, which have to be met over the next ten years (2005-2017), with priorities reflected in the budget, supported by KPIs to measure and evaluate the degree of success of implementation for such reform initiative. However, these phases of reforms are not without obstacles and resistance to change. These obstacles include the following: limited institutional capacity in government; resistance to change from traditional forces that have difficulty in building a national consensus; the need to develop public support for the reforms; negligible involvement of private-sector and civil-society actors in policy-making and implementing reforms; lack of financial resources; and troubled regional political situation (EU 2007a).

To ensure the successful implementation of the reform process, the cabinet (coalition of power) developed an equivalent initiative under the slogan “We Are All Jordan” (Kulluna al Urdun) in 2006, aiming to bring all heterogeneous representatives of Jordanian society⁷⁷ together to debate the future of the country, and to be involved in the reform process. A key

⁷⁵ Average real GDP growth rate over the 1998-2004 period

⁷⁶ Average real GDP growth rate over a ten-year period, starting from 2007, is 7.2%

⁷⁷ Government, Parliament, civil society, private sector, journalists, academics, and municipalities etc.

innovation of this process is the involvement of youth in the debate on reforms through the establishment of ‘the Youth Commission of Kulluna al Urdun’. By so doing, the cabinet, by using its power over resources and meaning, was able to diffuse the culture of change among the citizens. However, the focus of this study is on the first phase of NA reforms relating to public sector and fiscal reforms (Section 5.3.3).

5.3.3. Public Sector and Fiscal Reforms

As discussed above, over the past few decades the Government of Jordan has adopted a number of initiatives that have secured a good reputation for the country in the eyes of international donors for its willingness to engage in economic and political as well as public sector and fiscal reforms. That’s why Jordan is often portrayed as a “*model reformer*” and a “very important partner” in the Arab Middle East (ENP, Progress Report 2010). With the great efforts of the King, Jordan has fulfilled most official reform conditions laid down by the World Bank and the IMF during the course of several structural adjustment programs. Consequently, the EU and other bilateral and multilateral donors (especially USA) are at least formally committed to inducing political and economic change. In late 2010, Jordan became the second Mediterranean country participating in the European Neighborhood Policy (ENP) to realize advanced status in its relationship with the EU (see EU 2004).

The radical reforms in public financial management to improve budget performance and increase government efficiency were at the core of the NPM ideas and initiatives of fiscal reform. Such reforms are particularly necessary to secure the required funding for socioeconomic development programs manifested under the NA. As discussed before, Jordan’s public finances suffered from continual distortions and deficits despite relative improvements in fiscal performance. The growing budget deficit was mainly caused by the growth in government expenditures, which continued to be driven by capital expenditures, defense and security, public sector salaries and pensions. Furthermore, the expected decline in foreign grants, coupled with a high dependence on oil subsidies, made the budget extremely responsive to oil price fluctuations; all of these prompted the support for fiscal reforms. As a result, reforms such as NPM, proposed to improve budget performance, include the following initiatives:

(A) Fiscal Reform: mitigate oil subsidies, improve pension system, develop civil service and incentive system (wage bill), accelerate privatization program, modernize the customs and tax administration and system (see table 5.7).

(B) **Government Efficiency (public financial management)** (see table 5.8): complete the implementation of the Public Sector Reform Program (FRP I), which was approved by the Cabinet in 2004, including ROB system. Also, develop and implement a comprehensive e-government program.

The NA has already set a number of KPIs designed to monitor the implementation of these two initiatives, which are associated with public sector and fiscal reforms. The following tables include major KPIs for these initiatives respectively:

Table (5-7) Selected Performance Indicators for Fiscal Performance (A)

Key Performance Indicators (KPIs)	Current (2005)	Target (2012)	Target (2017)
GDP (real growth)	5%	8%	7%
Public Debt as a Percentage of GDP	91%	63%	36%
Budget (Deficit)/Surplus as a Percentage of GDP, excluding Grants	(11.3%)	(3.6%)	1.8%
Domestic Revenues as a Percentage of Current Expenditures	85%	140%	170%
Customs and Tax Revenues as a Percentage of Total Government Revenues	54%	71%	75%
Civil Service Pension Costs (in JD Million)	111	0	0
Oil Subsidies (in JD Million)	495	0	0
Subsidies on Wheat, Malt and Bran (in JD Million)	57	0	0
Subsidies to State-Owned Enterprises (in JD Million)	133	78	78

(Source: NA, Jordan: 24)

Table (5-8) Selected Performance Indicators for Government Efficiency (B)

Key Performance Indicators (KPIs)	Current (2005)	Target (2012)	Target (2017)
Control of Corruption (*) percentile ranking	69%	80%	90%
Central Government Wage Bill as a Percentage of GDP	14%	9%	7%
Government Effectiveness(*) Percentile Ranking ⁷⁸	63%	80%	90%

(Source: NA, Jordan: 24)

It is important to note that the NA reforms were different from all previous agendas because NA is a very comprehensive approach including clear targets and objectives with KPIs for each sector of the economy (EU 2007b). Thus, the program of political and economic reforms covered most aspects of the Public Finance Management (PFM) in Jordan. The three main objectives of the program were to ensure fiscal sustainability, efficient resource allocation, and operational efficiency, which included numerous changes in terms of NPM doctrine⁷⁹ (*ibid.*).

⁷⁸ (*) World Bank Governance Indicators

⁷⁹ The most important of which are as follows: 1) Reduce the general budget deficit to 3% of the gross domestic product within five years, through rationalization of current expenditure and improving the general expenditure efficiency, and adoption of the priorities plan in reducing expenditure. 2) Expedite the implementation of the public sector reform components and restructure the civil system in a manner that contributes to develop the various ministries' and public organizations' performance. 3) Develop and update the tax system to achieve

The ENP, which is part of the EU, responded to the Jordanian political reform agenda as set out in the “National Plan for Political Development”. The National Plan has been developed to implement political reform, which aims to strengthen democracy, transparency, accountability and justice in Jordan, and to develop a model for a modern, knowledge-based Islamic and Arab State. At the same time, the ENP also responded to the Jordanian National Social and Economic Action Plan (2004-2006), which aims to implement a sustainable socio-economic reform process including financial management reforms (see EU 2004). As a result, Jordan and the EU have collaborated closely in implementing these Action Plans of political and economic reforms represented by NA. The Jordanian aim in implementing the Action Plan (2004-2006) was to develop Jordanian legislation, norms and standards to make them similar to those in the EU, as well as to gain legitimacy and support. This helped to develop and implement policies and measures to promote economic growth, employment and social harmony, to reduce poverty and to protect the environment, thereby contributing to the long-term objective of sustainable development. In addition, the opportunity for convergence of economic legislation has contributed to open up economies to one another, and the continuing reduction of trade barriers stimulates investment and growth (see EU 2004).

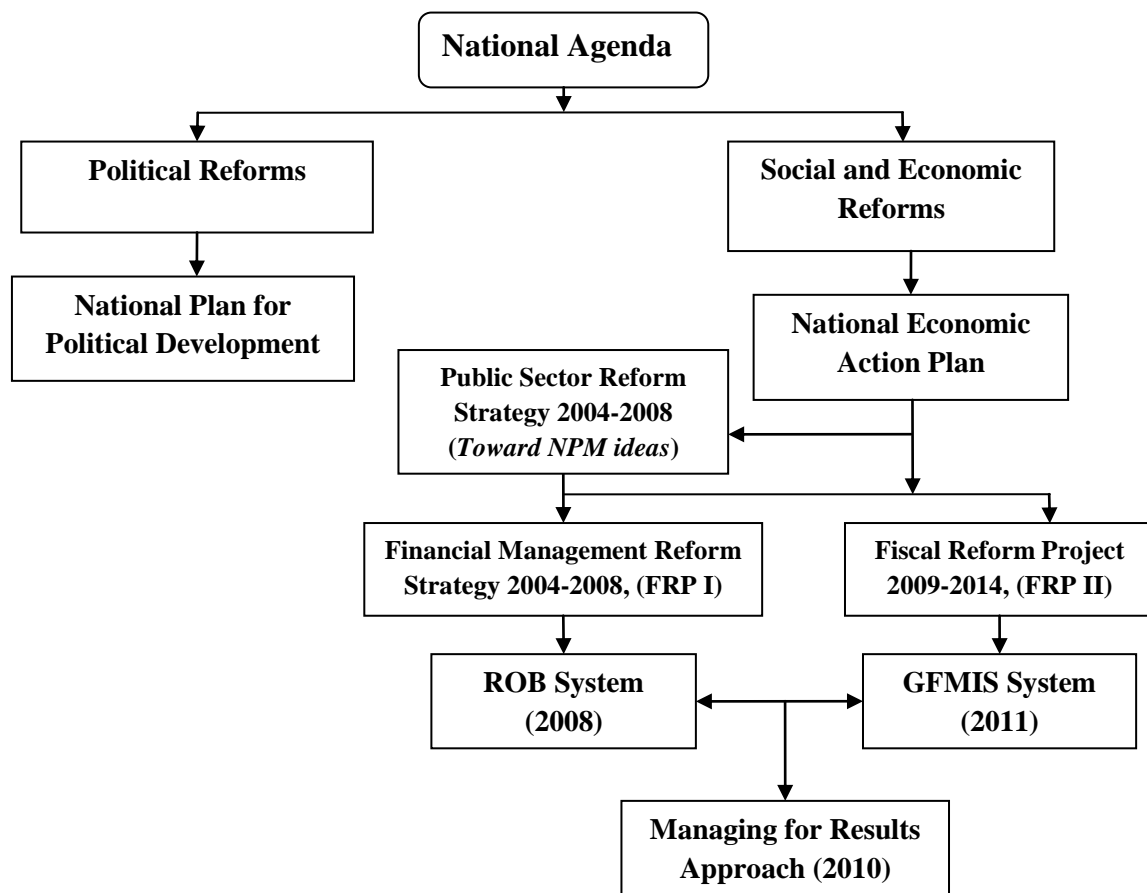
During the first year of implementing the Action Plan in line with the EU-Jordan ENP, a regular dialogue between the EU and Jordan has occurred through various sub-committees. The dialogue involved discussions about the implementation of the different stages of the Action Plan, enabling specific priorities to be recognized and interested donors to be identified. In addition, Jordan has already developed a reform agenda for the next ten years, as stated by the “NA”, completed by the “Kulluna al Urdun” initiative (We Are All Jordan), which determines meticulous priorities and dynamics to tackle national challenges and conflicts. However, the NA was entirely prepared in consistency with the Action Plan and can reinforce its implementation (Muasher 2011). Along with the Action Plan, the Jordanian Ministry of Finance (MOF) has embarked on a significant fiscal reform program for public finance in two sequential projects: Fiscal Reform Project (FRP) I (2004-2008) and II (2009-2014). The implementation of these projects was supported by external technical and financial

justice and equality through improving the tax collection efficiency, and broadening the tax base through reconsidering the relevant legislations to achieve stability in such legislation to attract investments.⁴) Reconsider the mechanisms of general budget preparation, implementation and control. 5) Expand and accelerate the privatization process in addition to enhancing dependence on self-resources in financing the general budget items. 6) Intensify the efforts to exploit the foreign debt exchange agreements and purchase a portion thereof by using part of the privatization process.

support from international donors, in particular USAID for reforms of the customs and tax system and the accounting systems, and German Technical Cooperation (GTZ) for the change in the budgeting system and process, and the modernization of accounting practices including expenditure procedures. The IMF and the World Bank have also supported the fiscal reform efforts of the MOF (see EU 2007b).

The FRP I (2004-2008) was implemented within the Public Sector Reform Strategy that was adopted in 2004 by the MOF. It focused on a public financial management reform, consisting of MFR approach, ROB system, Taxation and Customs administrations, and the introduction of GFMIS system as well as other public sector reforms (Beschel and Ahern 2012). The FRP (I) was supplemented by FRP (II) which is being implemented gradually between 2009 and 2014. Thus, the work of the USAID FRP II is implemented through six components: A) Tax Revenue Mobilization; B) Public Financial Management; C) MOF Capacity and Organization; D) Customs Administration and Trade Facilitation; E) Results-Oriented Government (ROG); and F) Government Financial Management Information System (GFMIS) (USAID 2011a). In this regard, it should be emphasized that the MOF, with the support of expertise and consultants and financed by USAID, has embarked on a computerization scheme (in the form of GFMIS) adapted to a new chart of account (COA) based on the accrual system, and in full conformity with the International Public Sector Accounting Standards (IPSAS).

The budgeting systems have been, and continue to be, the subject of constant major reform, bringing practices and procedures in to line with International Best Practice, under both FRP I and II. Both initiatives are having a major positive impact on fiscal discipline and the effectiveness in budget allocation in terms of developed KPIs. This also helps to close the gap between strategic planning, the MTFF and ROB systems which are considered inextricably linked. In the same way, the financial management system has been undertaking major reform by implementing the Oracle-based Government Wide Financial Management System, or GFMIS (USAID 2010a). Figure (5.17) illustrates the implementation steps of the public sector and fiscal reform, which moved gradually from NA to implemented accounting systems.

Figure (5-17) The Implementation Steps of Fiscal Reform Projects

(Source: Author)

The MOF, by implementing these projects (FRP I & II), focused on three main objectives drawing on the MFR approach: 1) Improving the macro-fiscal conditions of the treasury through the improvement of the public debt management and domestic revenues management, rationalizing the tax system to minimize tax evasion, creating a real estate comprehensive information system, and continuing to review public expenditure annually to allocate funds in accordance with national priorities; 2) Raising competence in planning, preparation, and implementation of the central budget through a rationalization of the budget preparation in terms of ROB within clear sector priorities, and also aiming to attain more fiscal transparency, and promotion of the quality of public services to citizens and investors through more accountability in ministries and outflow organizations; And 3) the construction of institutional capacity and human resources development by a full reconsideration of the managerial and organizational structure of the MOF and affiliated organizations as well as the definitions of functions and job descriptions (EU 2007b).

This study examines the implementation and diffusion of the MFR initiative, especially ROB and GFMS systems, at both the organizational field (Government Environment) level and organizational level (Jordan Customs Organization). Section (5.4) describes the Jordanian government environment and its orientation towards NPM ideas, and explains the MFR approach.

5.4. Jordanian Government Environment and NPM Doctrine

The implementation of public sector and fiscal reform initiatives over the last decade has led to significant changes within public organizations in the governmental field, in terms of management accounting and organizational changes. These changes have taken place in different aspects including organizational structure, strategies, information technology (IT), financial and management accounting and other aspects of financial management, human resources management, customer orientation, and performance measures. The objective of these initiatives has been to stimulate the socio-economic and political development by accelerating private sector-led growth and implementation of sound economic and fiscal policies. These initiatives were grounded in the MFR paradigm. In this regard, the government introduced the KAA model and TQM system, created competitiveness, and modified government structure to promote an excellence culture within the environment and its adaptation to this new paradigm. All of these reforms can be considered as related to the introduction of NPM ideas. The following sections show the major changes in the organizational and governmental fields.

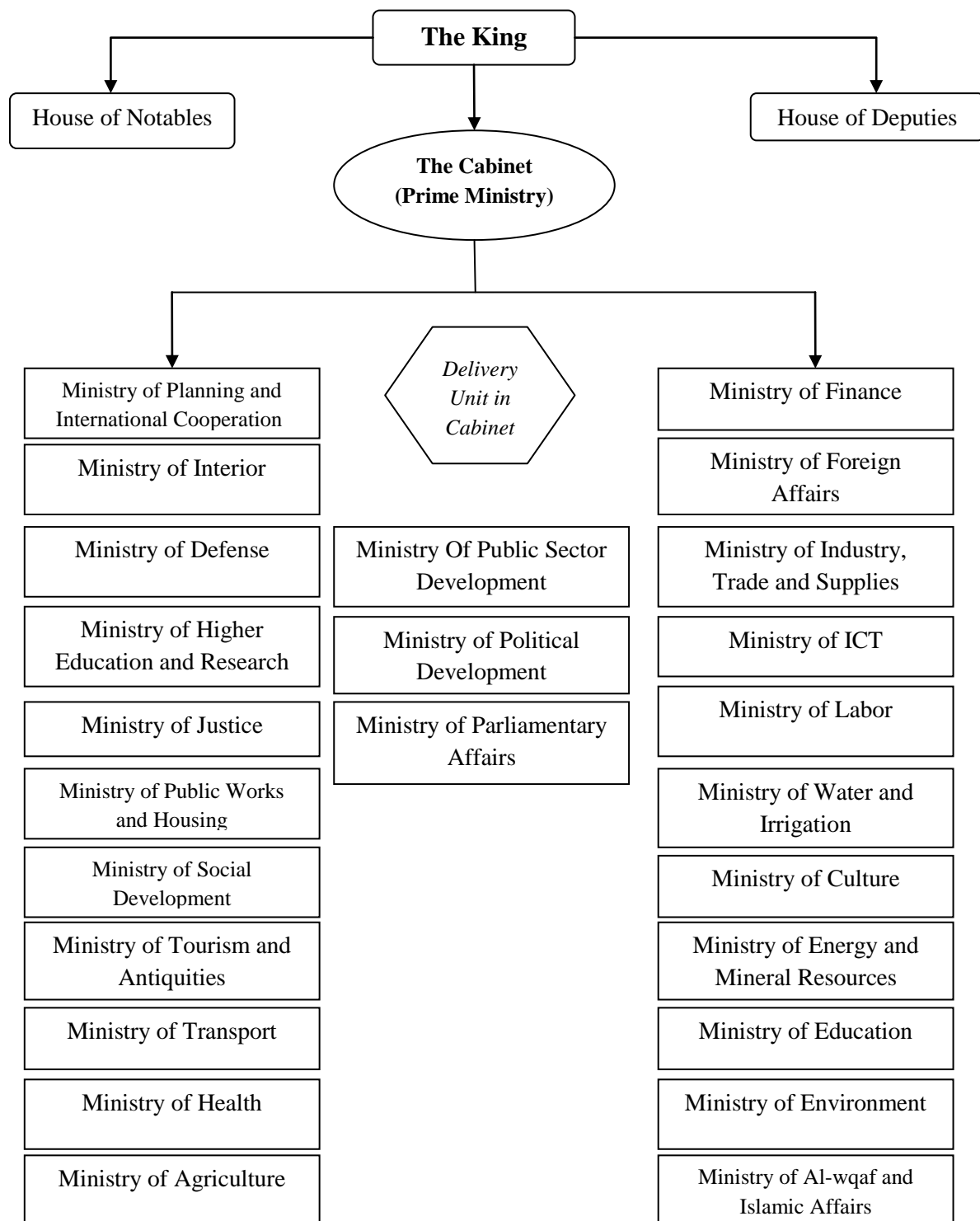
5.4.1. Organizational Structure of Government

Jordan is a constitutional monarchy with a representative government. The reigning monarch⁸⁰ is the King, the chief executive and commander-in-chief of the armed forces. The King exercises his executive authority through the prime minister and the cabinet. The cabinet is responsible to the elected House of Deputies which, along with the House of Notables (Senate), constitutes the legislative branch of the government. The judicial branch is an independent branch of the government. Thus, the Jordanian Constitution provides the primary

⁸⁰ The reigning monarch is the chief executive. The King exercises his executive authority by appointing the prime minister, who then organizes a cabinet of ministers to be appointed by the King. Thus, the prime minister and the cabinet must be approved by the Lower House of Parliament, the House of Deputies. If the House of Deputies votes against the prime minister, he and his entire cabinet must resign. The Lower House can also vote any individual minister out of office. The King also appoints all the members of the Upper House of Parliament, known as the House of Notables, or Senate. The number of senators cannot exceed one half the number of elected representatives.

framework for maintaining basic freedoms and providing public services. Jordan's Constitution stipulates that the reigning monarch must approve laws before they can take effect, although his power of veto can be overridden by a two-thirds majority of both Houses of Parliament. Jordan's Constitution outlines the regulations of the government's finances, as well as the enforcement and repeal of laws. Hence, it is fundamental that the government undertakes regular revision of legislation to ensure they are consistent with international standards and constitutional provisions.

Jordan is well served by constitution, laws and bylaws, as well as regulations and instructions for good governance. The government, comprising the Prime Minister and 25 Ministries, has to have the confidence of the National Assembly (Deputies and Notables). The Prime Minister and Cabinet members are responsible for all internal and foreign affairs of the State and for the general political and economic affairs that come before the House of Deputies. Thus, the government continues to be the largest administrator of the country and controls many sectors of the economy, which requires a high level of accountability and transparency. The government is also held responsible and accountable for introducing and implementing the required reforms for all national aspects. The institutional system driven by the administration of government is divided into three levels: Ministries, Central Organization, and Corporations (see Figure 5.18). The organs of government at the central level are the Cabinet, which is the Council of Ministries, and the Public Organizations, each one headed by its particular Minister. Besides that, there are 12 Governorates, 22 Central Organizations, and 37 Public Organizations (Agencies) (Caïmed 2012). The following figure shows the organizational structure of the government in terms of their responsibilities and tasks toward national objectives and policies.

Figure (5-18) Organizational Structure of Government

(Adapted from Prime Ministry, Jordan)

The public sector and fiscal reforms program aimed to improve the performance of ministries and public organizations by providing them with general guidelines to work towards mid- and long-term strategic objectives as well as national objectives, at the same time ensuring that

change comes from within and in cooperation with the private sector. Thus, the government has developed its plan for the public sector and fiscal reforms program to achieve administrative and accounting development. The objectives of the plan included ensuring greater transparency and accountability of government performance. According to the plan and its program, the four main principles for reforming the public sector involved the following: developing accounting systems and practices that can achieve actual results in the development process; ensuring accountability and transparency; decentralizing decision-making; and ensuring the proper use of financial resources (Caïmed 2012).

The NA is a long-term plan that requires periodic updating (enacting) and revision (reproduction) in the light of internal and external socio-economic and political developments. The mechanisms of its implementation required the creation of monitoring and evaluation units in ministries and public organizations to design and track national KPIs, and to present progress reports to the Cabinet and the public. Thus, the Ministry of Public Sector Development (MOPSD) was established within the Prime Ministry to assist the Cabinet to control the implementation of the NA, especially MFR initiative, and to monitor and report on its implementation by means of KPIs. In addition, the Cabinet has put two ministries in charge of social and political reforms, namely Ministry of Political Development and Ministry of Parliamentary Affairs. The goal of this change in governmental structure is to achieve consistent policies and ensure that they are not subject to government changes, while taking into consideration the need to regularly develop and update these policies (NA 2005).

In accordance with the NA, the government has adopted seven strategic initiatives⁸¹ to help focus its efforts in ‘the Government Implementation Plan’ of 2010 and to better define and prioritize its activities going forward. In line with this, ministries and related public organizations identified the future capital projects that they will undertake to make progress towards achieving the seven strategic initiatives. Thus, the Cabinet has conducted a thorough review of these projects and developed a set of sub-priorities to become the next focus of the Government Plan for each year or mid-term. A new Delivery Unit (DU) has also been established in the Prime Minister’s Office in order to monitor and track implementation of the Government Plan. The DU thus works closely with ministerial committees to resolve delays

⁸¹ These seven strategic initiatives are as follows: 1. Strengthening Government Performance and Accountability; 2. Encouraging Political and Civic Participation; 3. Enhancing the Business and Investment Environment; 4. Empowering Jordanian Citizens with the Skills to Succeed and Enter the Labor Market; 5. Feeding and Fuelling Growth and Security through Infrastructure Mega Projects; 6. Expanding the Middle Class and Empowering the Underprivileged; 7. Improving Public Services.

in the execution of capital projects and helps Ministries and public organizations to accelerate implementation of initiatives based on MFR approach (GOJ 2010).

More specifically, the establishment of MOPSD, and DU and Ministerial Committees was to ensure the successful implementation of the NA initiatives, especially MFR, as well as to facilitate its development towards monitoring the progress of implementation and measuring its impact on socio-economic development. Along with MFR approach, the Cabinet thus examines the policies, priorities and working programs for each ministry as well as at the national level, and defines KPIs for each of them, which should be used to measure performance throughout the year and MTFF. The Cabinet endorses strategies and programs in conformity with the Budgeting system and uses them as a basis for drawing up ministerial strategic plans. Ministries also provide the KPIs that they have developed to monitor and evaluate progress of these strategies and programs, in coordination with the Government Performance Administration (GPA). Thus, national objectives at state level are translated into sectorial or ministerial objectives; the latter are reflected by strategies (strategic objectives) at organizational level. The programs and projects at organizational level which are included in the budget are to be measured by KPIs (GOJ 2010). Consequently, the implementation of ROB was to link strategic planning process with the budgeting system. Hence, the implementation of these stages at three levels of budgeting and strategic planning process enhanced the MFR approach (see Figure 5.19).

Figure (5-19) The Government Planning and Budgeting Process based MFR Approach



(Source: Author)

Along with the Government Implementation plan, the government has prepared a new 'Executive Development Program' for the MTFF. The Program considers a comprehensive working plan for the next three years that was developed in a participatory approach, adopting the initiatives of the NA and the government, sectorial and organizational strategies, as well as the ROB system. The Program determines objectives, policy actions, capital projects, the required funding, and related KPIs to measure targeted outcomes. Its activities and projects⁸² support the government's efforts to achieve economic, social and political reforms. In developing this program, a Steering Committee (one of the ministerial committees) was established to be chaired by the Ministry of Planning and International Cooperation (MOPIC), including representatives from all concerned ministries and public institutions. This committee in cooperation with other ministerial committees determines the program's priorities from sectors' perspectives to ensure that each ministry's priorities and public organizations are aligned with the overarching sector's strategies and objectives. This process ensured effective alignment of objectives between various partners and stakeholders as well as looking at the cost/benefit of various projects in the same sector (MPIC 2011).

To ensure the coherence of the executive program with the government's fiscal policy, coordination and cooperation at the highest level between MOPIC, DU, MOF and the GBO has linked the program with the MTFF to streamline the fiscal and economic objectives with the development objectives. Thus, the MOPIC, in coordination with the MOF and the GBO on the one hand, matches the executive program with the state ROB in order to avoid any duplication of projects, and specifies the financial gap after the priorities have been identified by the ministerial committees. On the other hand, the MOPSD and Delivery Unit monitor and evaluate the implementation of capital programs and projects. In doing so, the Government has moved forward to the MFR approach, which helps to accomplish its priorities within the framework of the fiscal policy, accountability, monitoring and evaluation, at the same time aiming to decrease the deficit and public debt, and maintain financial stability (MPIC 2011).

However, there are still some limitations to the government structure. The five organizations and ministries, which have various monitoring and evaluation roles, are the MOPSD, the

⁸² Many of the projects that fall under the Program are capital projects, whose conclusion promises substantial outcomes for the Jordanian economy and the social wellbeing of Jordanian citizens. New projects have also been designed under this Program to address new challenges on the local front, and to accommodate and realize Jordan's commitments to the international community in the areas of economic development, promotion of human rights and freedom, social development, promotion of democracy and political liberties and achievement of sustainable development.

MOF, GBO, DU and Ministerial Committees. However it appears that they exercise overlapping roles and some duplication, hence causing wastage of time and inefficiency of work. This further leads to a lack of coordination and cooperation, creating suboptimal outcomes and impacts. Besides, the single largest factor causing delays in the process of public sector reform is said to be the frequent changes of Ministers or ministerial portfolios and, to a lesser extent, the appointments of Secretary Generals. The government should seriously consider the importance of modernizing and re-engineering the processes, procedures, work flows and structures involved in providing key public services, and select the most appropriate service delivery channel(s) in accordance with MFR approach. There is a need to develop and provide priority E-Government applications to facilitate the interface of Citizens/Businesses with public organizations wherever applicable (USAID 2010a). The following section highlights the emergence and diffusion of MFR approach within the governmental field.

5.4.2. Managing for Results (MFR) Approach

Several challenges have affected public sector performance, including the continual expansion of the size of government, duplication of efforts, and institutional responsibility for regulation and public services. This has been due, relatively, to the non-existence of clear processes for identifying and eliminating duplication of efforts, insufficient focus on public service outcomes and a disconnection between budget allocations and project results (GOJ 2010). As a result, the ROG⁸³ was introduced by the USAID FRP-II as an approach to transforming government. It was launched in a workshop led by David Osborne, who is the author of '*Reinventing Government*' (USAID 2010c). The workshop also focused on the ROB system as a tool for inspiring creativity, innovation and responsiveness to produce better government outcomes and highlighting the possible added value of the government performance (*ibid.*).

According to Osborne and his co-authors, the MFR approach can be defined as the connection of a results-orientation to a cluster of ideas that they term 'Re-inventing Government', especially entrepreneurial government and the measurement of performance. For them, results are identical to outcomes. Their approach requires improved accountability through new systems of performance measurement, which in recent years have become technologically possible. Hence entrepreneurial governments will innovate and learn as they innovate.

⁸³ ROG concept is the same as the 'managing for results' approach. Both are used in this study interchangeably.

Performers are to be rewarded as they have been conventionally through Management by Objectives (MbO)⁸⁴. However, Osborne and Gaebler declare that ‘MbO’ is the least effective approach as objectives “rarely have anything to do with the organisation’s key results: the quantity, quality and cost of its services” (1992:156). These practices become subjective and involve favoritism, artificially low objectives, ‘gaming the numbers’ and internal conflict and departmentalism (Osborne and Gaebler 1992). They suggest measuring service quantity, cost and quality, including customer satisfaction surveys, and rewarding groups rather than individual performance. They claim that ‘Management by Results’ is more efficient than ‘MbO’. This can be developed through the use of systems such as TQM and ROB. The ROB system could be mission-driven budgeting, output budgeting, performance budgeting, outcome budgeting or customer-driven budgeting (*ibid.* and see also, Rose 2003).

The ROG initiative thus aims to produce a more result-oriented government management through review and redesign of the key performance drivers of the public organizations including structures, processes and systems (GOJ 2010). The ROG approach, which is simply defined as “Government that achieves results” was implemented by applying three pillars that maintain its success (see MOPSD 2012): 1) an organizational culture dedicated to service that embraces innovation and learning processes; 2) strategic planning and performance management excellence; 3) government focus on achieving societal goals (results) and strategic definition of its role. Each pillar is essential for implementing MFR approach in the Jordanian government; hence, these pillars reinforce and enrich one another (see figure 5.20).

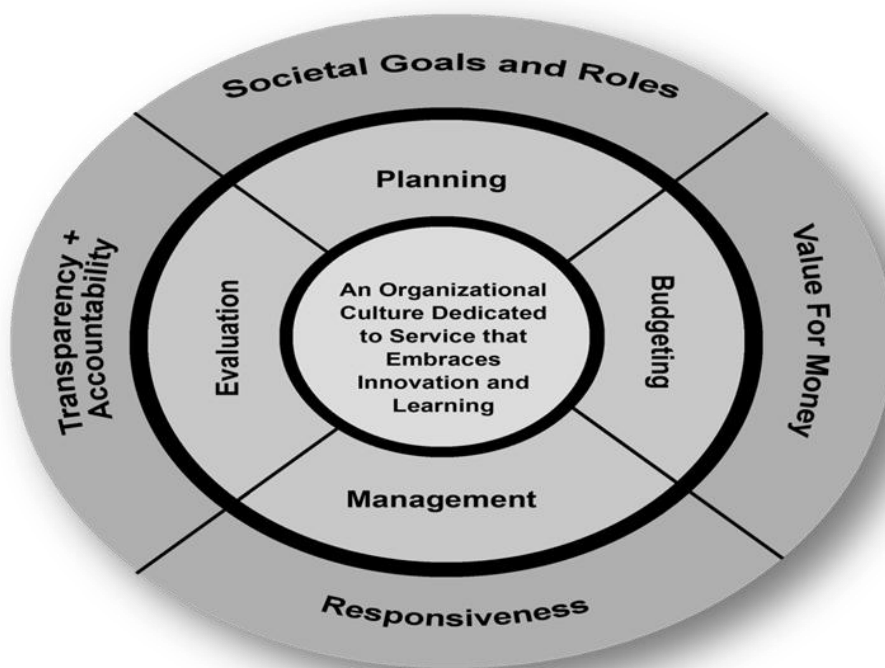
84 MbO was transferred from the private sector to government in the 1970s. The technique involves managers setting objectives and developing plans to achieve objectives. Individuals are rewarded for achieving their objectives (Rose 2003).

Figure (5-20) Pillars of Results-Oriented Government (ROG)

(Source: Ministry of Public Sector Development-FRP II, Jordan)

The above figure clarifies that the government's organizational culture is at the heart of ROG. The values of public service, transparency, innovation and learning have to be embraced and shared in order for people within the government to sustain the dedication needed for ROG. These foundational values of the culture are translated into action by an effective strategic direction and results management system of planning, budgeting, management and evaluation. The third pillar represents societal goals and benefits that ROG achieves during the results management cycle, and it strengthens transparency, accountability and monitoring of public sector performance. In this way, learning and innovation are interlinked throughout ROG in the reflective spaces that appear when public organizations make performance transparent and engage stakeholders inside and outside government in understanding and improving results (MOPSD 2012). These three pillars support ROG like concentric circles by illustrating how they build upon one another to work as a whole (see figure 5.21). Thus, the government's organizational culture⁸⁵ is the core of MFR and is considered a platform to implement MFR approach.

⁸⁵ The culture of service, innovation and learning actively seeks and embraces opportunities to improve results. Accordingly, strategic planning puts the focus on societal goals (national objectives) and roles when government strategic plans can construct clear vision, mission, and goals, define its role and build partnerships to better achieve societal goals. Budgeting for results as part of ROG brings value for money once the government invests resources to achieve goals and use ROB. Management for results enhances responsiveness once management

Figure (5-21) Interrelationships between Three Pillars of ROG Approach

(Source: MOPSD, FRP-II, Jordan)

The transition to the MFR approach is a major change for most organizations. Government leaders must be aware of the organizational culture and understand that they are leading organizational change. Building skills on the human side of change will help managers in overcoming resistance and facilitating MFR. This approach builds capacity in change management specifically related to strategic planning and MFR practices (MOPSD 2012). A focus on results, as envisioned by the Jordanian government, implies that programs contributing to the same or similar results should collaborate to ensure that goals are consistent and, when appropriate, program efforts are mutually reinforcing. Public organizations including JCO can use their strategic and annual performance plans as tools to drive collaboration with other organizations and partners, and establish complementary goals and strategies for achieving results. Such plans can also reinforce accountability for the collaboration (teamwork) by aligning organizational goals and strategies with those of the collaborative efforts. Accountability for collaboration is reinforced through public reporting of results for each organization (GAO 2005).

focuses on delivering the service results as planned and budgeted. Evaluation of results achievement supports transparency and accountability when government monitors and evaluates attainment of results; hence, it discovers its performance since government actively measures and compares actual results with planned results, creating opportunities to learn and improve the performance. By doing so, the ROG improves the organization's focus on results in each phase of the MFR cycle (MOPSD 2012).

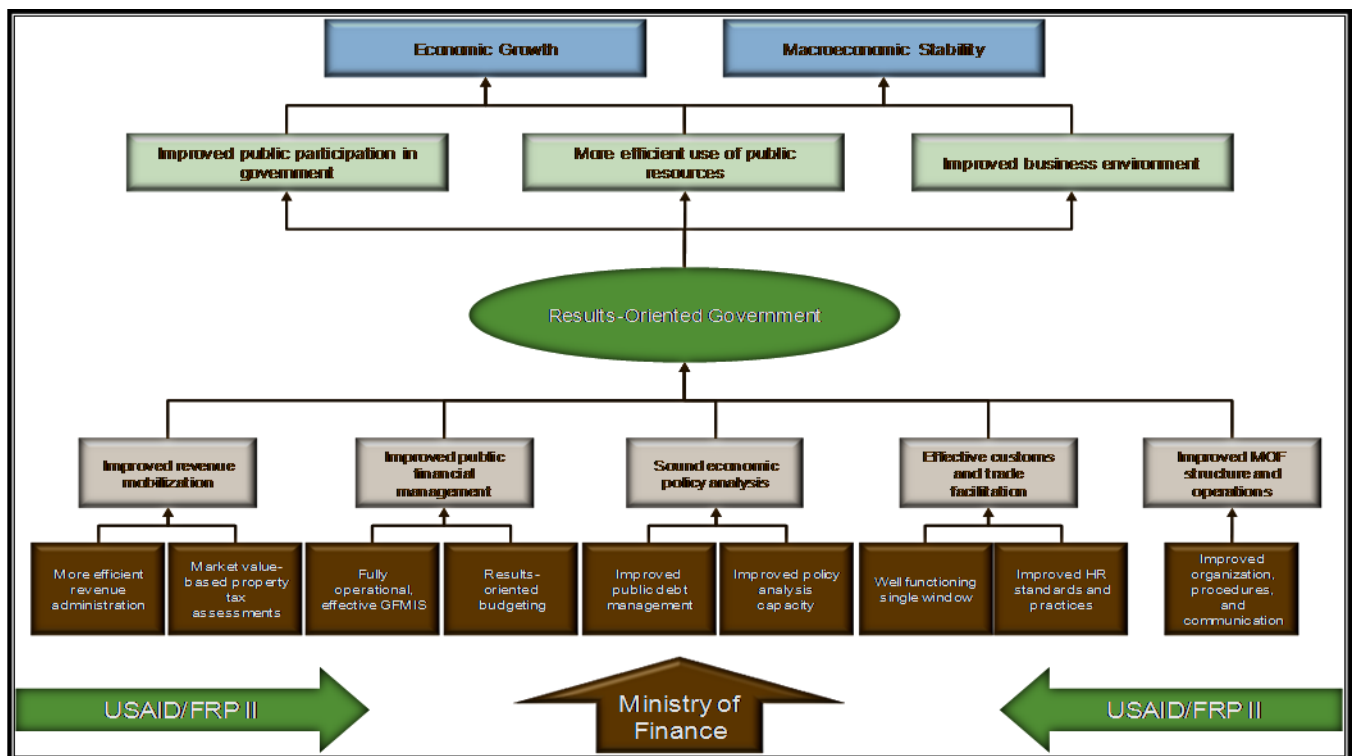
The Jordanian government, in cooperation with USAID, established a ROG administration⁸⁶ with the major role for MOPSD⁸⁷ in order to coordinate the implementation of the ROG initiative. The key priority programs and projects that were achieved within the Jordanian government in order to implement ROG comprised results orientation, restructuring the public sector, and restructuring of salaries and allowances in the civil public sector. It also applied strategic planning in all public organizations by linking the strategic planning process with the ROB system and improving the quality of public services by introducing a comprehensive service improvement and automation of government services and E-Government. Thus, a new sectorial governance framework was introduced to unify the sectorial structure and management⁸⁸. Besides, the MOF and JCO implemented a number of systems under the MFR initiative in support of USAID, including ROB, GFMIS and other systems related to simplifying procedures. Figure (5.22) summarizes the implementation process of MFR (i.e. ROG) approach and its components.

⁸⁶ The administration was established through the signing of a Memorandum of Understanding to coordinate the execution of the program between the Ministry of Public Sector Development, Ministry of Finance, Ministry of Planning and International Cooperation, Ministry of Information and Communications Technology, Civil Service Bureau, Government Performance Control Administration, King Abdullah II Centre for Excellence, and The National Institute for Training.

⁸⁷ MOPSD mission is "Results-oriented government administration, heading to the citizen, working efficiently and effectively" (source: MOPSD, Jordan).

⁸⁸ A functional restructuring approach led to the achieving of a number of results: reducing bureaucracy, complexity, overlap and duplication; reducing the span of control, especially by the prime minister; reducing structural divergence; increasing efficiency, productivity and transparency; merging similar function-institutions; eliminating unnecessary units and institutions; and rationalizing public institutions (source: MOPSD, Jordan).

Figure (5-22) The Implementation Process of MFR and its Components



(Sources: USAID/ Jordan, MOPSD)

In doing so, public organizations engaged in MFR approach need to create the means to monitor and evaluate their activities to enable them to identify areas for development. Reporting on these activities can help key decision-makers within public organizations, as well as stakeholders, obtain feedback for improving both policy and operational effectiveness. High-performing organizations use their performance management systems to support accountability for results, particularly by placing greater emphasis on fostering the necessary cooperation and coordination both within and across organizational boundaries to achieve results. Hence, a government-wide performance strategy could provide a broader perspective of the government's goals and strategies to address issues that cut across different public organizations, including redundancy and other inefficiencies in how the government does its business (GAO 2005). There is evidence that MFR approach works best in an atmosphere of TQM and a culture of performance excellence. So, among the government-wide initiatives in Jordan is the King Abdullah II Award (KAA) for Excellence in Government Performance and Transparency.

5.4.3. The KAA Excellence Model

The fundamental principles of applying the MFR approach within the Jordanian public sector were considered as complementary design principles in accordance with the design of the “*King Abdullah II Award for Excellence in Government Performance and Transparency (hereafter KAA Model)*”. The adoption of the KAA model was intended to improve the performance and culture of public sector management and services. While the government has aimed to develop a strategy of private sector-led and public sector-enabled economic growth, the KAA model embodies the King (leadership) support for reforms, sustainable development, and globally competitive public organizations. It also provides a valuable incentive to stimulate public sector reform. Without this strong national mandate, reform efforts would have little chance of success (Al Kayed 2005).

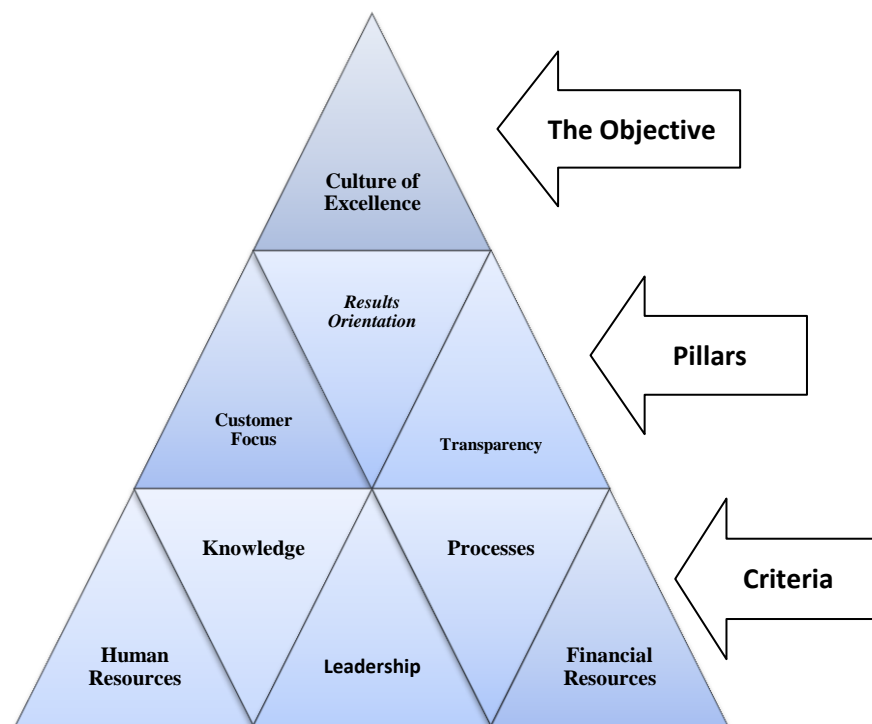
In the early 2000s, Jordan initially applied the KAA Model in the private sector; it was later launched in the public sector in order to reflect the level of seriousness and desire for change in this context (Al Kayed 2005). Afterwards, the King Abdullah II Centre for Excellence (KACE)⁸⁹ was established in 2006 in order to manage and supervise the application of the KAA Model among public organizations, as it is considered the most prestigious award for excellence at the national level in all sectors. It was produced and reproduced from an international excellence model, namely the EFQM Excellence Model, which is very similar to the Balanced Scorecard (BSC). Hence, the pillars and criteria of the KAA Model apply a modified copy of EFQM Model criteria.

The KAA thus aims to create a quantum leap to develop the performance of public organizations and services in serving Jordanian citizens and investors, as well as to enhance positive competitiveness among public organizations by promoting awareness of the concepts of distinguished performance, innovation and TQM principles, highlighting the outstanding efforts of public sector enterprises and presenting their achievements in the development of systems, processes and services, and entrenching the culture of excellence that is founded on three international pillars for best practice (KAA 2012). Jordan strongly believes that an institutional excellence and governance program will not be beneficial unless collaborative

⁸⁹ The Vision of the KACE is “To entrench the culture of excellence in government institutions in Jordan, so that institutions and individuals work towards excelling in their performances, thus leading to or surpassing the set international best practices”. The Mission is “To provide an environment that helps create a culture of excellence and promote it in various institutions by putting in place standards that set the bases of excellence, support policies, programs and incentives leading to the achievement of that” (www.kaa.jo).

efforts are incorporated in it and a sense of great demand is deployed and applied. Consequently, an excellent and good governance model has been tailored to reflect the Jordanian Initiative, which falls within the following main five criteria: Leadership; Human Resources; Processes; Knowledge; and Financial Resources (see figure 5.23). Each of these criteria is geared towards three main pillars: Results-Orientation; Customer-Focus; and Transparency. These in turn reinforce the culture of excellence (*ibid.*).

Figure (5-23) KAA Model of Excellence



(Source: KACE, Jordan)

The above model provides a reference guide and set of standards for measuring the level of progress and development of the performance of public organizations in Jordan. The KAA Model takes the form of continual assessment of participating public organizations every two years as an award cycle. The participation in the KAA is mandatory for all ministries and public organizations. Participating ministries and organizations in each cycle are determined by the Board of Trustees according to the type of services delivered to the customers. The participating organizations must meet the Award's criteria and submit the participation report along with the supporting documents to the KACE (KAA 2012). The KACE assigns a specialized committee to discuss the final submitted reports, in terms of the assessment process (60%), the mystery shopper (15%), the customer satisfaction (15%) and the employee

satisfaction (10%), for those organizations competing to win the KAA Award. The Assessment is carried out in line with international standards by experts. Accordingly, the KAA is granted to one or more winners in each of the following categories: Best Ministry; Best Public organization or Department; Best Accomplishment; Distinguished Government Employee; etc. (KAA 2012).

The KAA, with its focus on MFR approach, develops long-term goals and accountability for results by providing a framework that the government and public organizations can use to consider the appropriate mix of long-term strategic goals and strategies needed to identify and address national objectives that cut across organizational boundaries. Recently, the KACE, in cooperation with MOPSD and FRP II, has introduced new initiatives to change the perspectives of the KAA competition from an award to an excellence model, focusing less on the annual KAA report itself and more on execution, continuous improvement, innovation and inter-agency collaboration. Indeed, the KAA award has motivated customer-focused process improvements to reduce both the time and cost of public services. Examples include installation of electronic queuing systems, web-enabled services, processes reengineering, one-stop shops and the automated Single Window at the JCO, implemented with FRP II support (USAID 2011c). In this way, KAA has promoted innovative diffusion and excellence in government's field depending significantly on incentives. Consequently, the KAA has been considered a catalyst for change toward the MFR approach (*ibid.*). Besides, the KAA has helped change many accounting practices, systems and processes within public organizations. It has also promoted the culture of excellence in performance and management in all public organizations, with the ultimate goal of increasing Jordan's international competitiveness to help secure a sustainable and prosperous future for Jordan (KAA 2012).

5.4.4. Competitiveness in the Public Sector

According to the Global Competitiveness Report by the World Economic Forum, the competitiveness is defined as “a set of institutions, policies and factors that determine the level of productivity of the country”. The level of productivity sets the sustainable prosperity goals to be achieved by the economy, as more competitive economies tend to produce higher levels of income for their citizens. In this regard, Gross Domestic Product (GDP) is the most commonly-used measure of a country's overall economic activity. The relation between Jordan's prosperity and competitiveness is direct: the higher the competitive position of Jordan, the higher the level of income for its citizens. The principal economic goal of a

country is to produce a high and a continually improving standard of living for its population (measured by social indicators). Such a goal can only be achieved through correct macroeconomic decision-making, a stable macroeconomic situation and a strong competitive position of single businesses, sectors and the economy (MPIC 2010). The Minister of MPIC asserts that

“Competitiveness is the key word in economic development today as the world economy has entered a new era of competition. As a country with limited natural resources, Jordan will only succeed economically if it adopts a distinct strategy and practice. It is obvious that Jordan’s reform efforts have corresponded to new global trends, and success has been accomplished creating a favorable investment environment, in which businesses can flourish and prosper” (Jordan’s National Competitiveness Report 2008-2009).

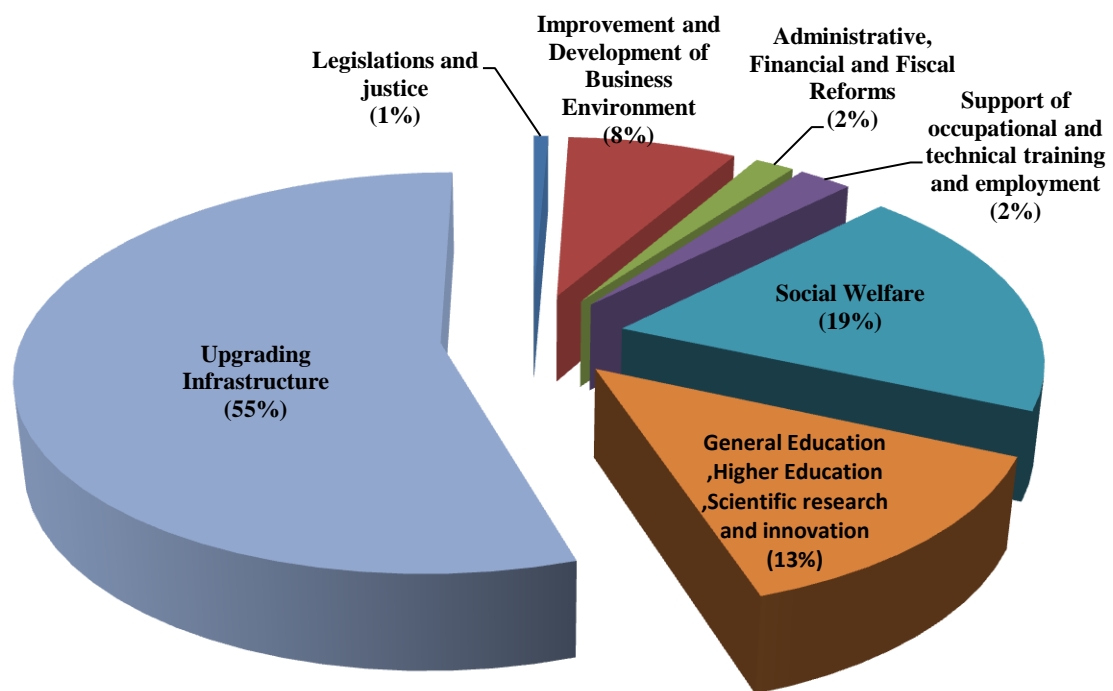
Many countries including Jordan are currently suffering market losses, rising unemployment, growing budget deficits and public debt, as well as bankruptcies and undermined public trust in financial institutions. In addition, the rising prices of energy, oil and commodities have caused inflation growth, increasing the cost of living and levels of poverty. During these multifarious periods of economic slowdown, governments and businesses have been facing significant pressures to maintain their competitive position in order to ensure future prosperity (MPIC 2010). Competitiveness is thus critical to Jordan’s future prosperity. Jordan’s recent economic growth is notable and impressive: it was one of only four countries (Turkey, Kuwait and Lebanon were the others) in the region to achieve annual growth in GDP per capita above 6% in 2007 (MPIC 2007). Thus, the construction of national competitive advantage became a main priority on any governmental agenda.

As an open and small market economy, Jordan has not been immune to the global financial crisis. However, it seems that Jordan has successfully managed to overcome difficult economic periods; thus, in 2008, despite certain macroeconomic barriers, such as high inflation rate, current account deficit, budget deficit etc., Jordan has maintained positive developments through reform initiatives. The small market size and relatively unsophisticated financial products have provided Jordan with some buffering, while the total impact of the global financial crisis only manifested itself in 2009. Thus, Jordan’s economy has had the ability to cope with the external shocks and in many cases has avoided their negative effects. This could not have been achieved without sound and prudent economic policies and reform initiatives including NA. As discussed in the previous sections, examples of some of the reforms introduced by Jordan in the 2000s included launching ROB system and then the GFMIS, introduction of MTEF, implementation of MFR, improving budget classification, and implementing COA. All of these reforms focused on economic development, social

protection, (public) financial management, public services, human capital development and governance (MPIC 2010).

The Jordanian Government, supported by the donors (mainly USAID and EU), has achieved, to some extent, the objectives of Jordan's NA as shown in the following figure (5.24): that is, to accelerate economic growth, promote greater social inclusion, and expand the country's social, political, and economic development. FRP I and II have supported the government in transforming into a high-performing and results-oriented management that taxes citizens fairly, spends money rationally and moves goods smoothly, improving public services and enhancing stability in the country and across the region.

Figure (5-24) Incompletion Percentages of Reform Initiatives Based National Agenda



(Source: Executive Development Program 2011-2013, MPIC: Jordan)

As a result, many elements of reform programs including public financial management (PFM) have been successfully implemented, while others are still in progress. To strengthen Jordan's economic base and improve the competitiveness and efficiency of Jordanian enterprises, an export-oriented policy was adopted to open and improve integration, reduce bureaucracy and simplify procedures, as well as to facilitate services offered to local, Arab and foreign investors to invest in Jordan (MPIC 2010). According to the Global Competitiveness Report

2011-2012, Jordan is ranked (71) among (142) countries who have achieved good progress in terms of the control of corruption, government effectiveness, regulatory quality, and the rule of law. Hence, a competitive environment has brought economic and social progress to the country. But to face global competition, public as well as private organizations need to constantly evolve, modernize their processes, improve their services and train their staff. This involves applying strategic thinking, keeping up to date with modern management accounting techniques and IT technologies. A strong competitive position is never given - it needs to be achieved, maintained and strengthened over time (MPIC 2010).

So far there have been two relatively recent PEFA⁹⁰ assessments of Jordan's PFM performance: the first one in 2007 and the other in 2011. The PEFA assessment of PFM in Jordan is based on the PFM Performance Measurement Framework (PMF) developed by PEFA partners⁹¹ as a tool to provide reliable information on the performance of PFM systems, processes and institutions over time (PEFA 2011). According to PEFA report 2011, the overall change and reform in PFM areas has trended in a positive direction during the four-year period despite some unfavorable atmospheres also flourishing, mainly as a result of political factors such as the dissolution of Parliament for a lengthy period and external factors such as the Arab Spring. However, the overall situation of the PFM system in Jordan remained positive (*ibid.*). PEFA assessment of 2007 concluded that Jordan has made great progress in PFM in recent years in terms of planning, controlling, monitoring and securing greater transparency of its fiscal policies, budget implementation and debt management (PEFA 2007). The reviews confirm that PFM has been high on the reform agenda of both the government of Jordan and its international development partners, and that positive results have been achieved (WB 2010). In 2009, a joint IMF/World Bank review entitled 'Jordan: Advancing the PFM Reform Agenda' has also concluded that the Jordanian authorities have made considerable progress in developing PFM reforms, especially MFR approach including management accounting changes. The following sections explain the diffusion and implementation of budgeting systems, i.e. ROB and GFMIS systems, as key processes of management accounting change within the governmental field.

⁹⁰ PEFA is the Public Expenditure and Financial Accountability

⁹¹ PEFA partners are the World Bank, the IMF, the European Union, the UK Department for International Development, the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign affairs, and the Swiss State Secretariat for Economic Affairs.

5.5. Management Accounting Change in the Public Sector

Management accounting changes in PFM over the last decade were central to the rise of the NPM doctrine and its associated ideas of MFR and public accountability, of which accounting is a key element. NPM arose as an alternative paradigm to bureaucratic (traditional) public management (see Hood 1995). NPM is often interpreted as a response to budget cuts, fiscal stress, government overload and social dissatisfaction, with relatively poor macroeconomic indicators including high public debt, budget deficit, inflation and unemployment. NPM reforms were taken up and generated by OECD⁹² countries in the 1980s (*ibid.*). The NPM, called “a new paradigm” by many researchers, seems to have dominated thinking about public sector and fiscal reforms by practitioners and academics alike (Osborne and Gaebler 1992; Hood 1995; Hughes 1998). As Hughes (1998:1) states, “traditional public administration has been discredited theoretically and practically, and the adoption of new forms of public management means the emergence of a new paradigm in the public sector”. Thus, NPM reforms appear to be a general response to widespread pressures including improving public management and services, remedying fiscal stresses, minimizing budgets, and the imperatives of globalization (Aucoin 1990; Polidano and Hulme 1999).

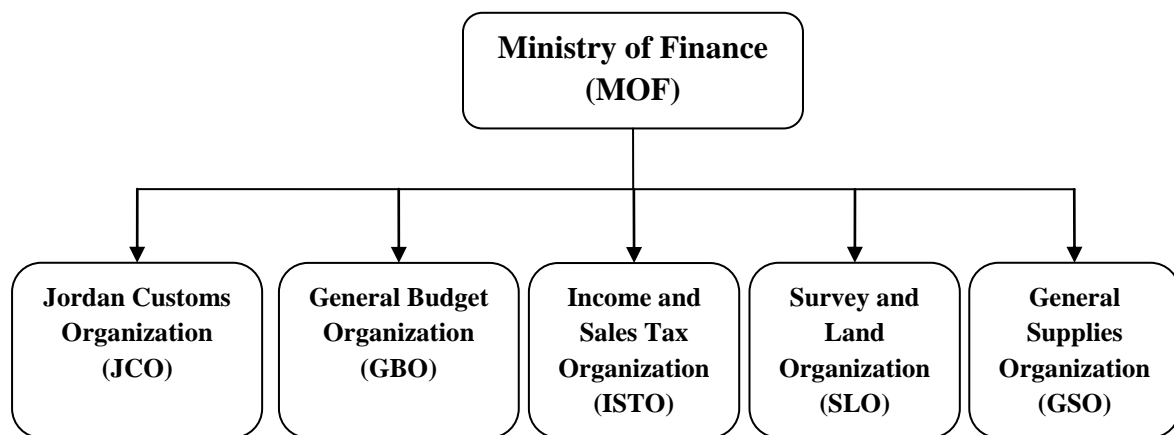
There is a universal consensus that key components of NPM reforms include deregulation of line management, MFR emphasis, strategic planning, performance-based accountability and conversion of civil service departments (see, Aucoin 1990; Hood 1991). Some authors also insert privatization and downsizing as components of the package (Ingraham 1996; Minogue 1998; Polidano and Hulme 1999). Recently, the government of Jordan has made significant changes in PFM by drawing on the MFR approach as a main notion in NPM doctrine in terms of planning, budgeting, controlling, monitoring and accountability. The budgeting systems, as a key part of PFM, were implemented along with the MFR approach by the MOF (PEFA 2011).

At the organizational field level, the public organizations (i.e. MOF and its affiliated organizations (as set out in figure 5.25), in cooperation with USAID consultants and experts, have developed procedures, guidelines and plans on how management accounting systems should and/or could be implemented by specific organizations and disseminated within certain industries. It is hoped that, with the passage of time, MOF organizations will gain experience in these accounting systems. The systems will be reinforced or alternative accounting

⁹² OECD is the Organization for Economic Cooperation and Development

practices developed. Certain practices will come to the fore and be recognized as ‘better’ practices (see Dillard *et al.* 2004). This study focuses on diffusion and implementation of budgeting systems (ROB & GFMIS) among MOF organizations, especially the JCO case-study. Therefore, the following sections will specifically describe the diffusion and implementation of management accounting systems within the MOF field. In this context, the study considers MOF and GBO as change leaders, and JCO as one of the change implementers.

Figure (5-25) Organizational Structure of MOF



(Source: MOF, Jordan)

5.5.1. Results-Oriented Budget (ROB)

The changing approach to public sector budgeting is part of a more general move to improve public sector performance management, referred to by the OECD as ‘performance management’: “In general one could argue that, under performance management, input-oriented budgets are turned into performance budgets [i.e. ROB], cash-based accounting systems are changed into accrual-based cost accounting systems [...] or performance reporting systems, and compliance and financial audits are complemented by performance audits and evaluations” (OECD 1997:21). The OECD describes a subset of new approaches to the delivery of public services which is often described as ‘MFR approach’. The shift from the old public administration to NPM has fundamental implications for results-based budgeting. NPM systems permit greater flexibility of inputs and processes in return for greater emphasis on outputs and performance (OECD 1997; Rose 2003). In this regard, performance-based systems are intended to complement accounting systems rather than replace them (Rose 2003).

Kristensen *et al.* (2002:11-12) recognize the key drivers of an outcome-focused approach to budgeting and management to improve public sector learning about how government policy can have an impact on society: (1) to make government leaders more accountable for program performance and their impacts on society; (2) to enable government to prioritize the allocation of resources based on planned program results; and (3) to understand that the achievement of positive outcomes involves realizing national objectives. Kristensen *et al.* (2002:7) also reviewed the steps that OECD states have taken to move from input-based budgeting to output-based budgeting. They conclude that, generally, it is the view of central budgeting and management institutions that a change in focus enhances the quality of management and increases program effectiveness and efficiency. And one key change is the shift in many OECD countries from cash accounting to accruals budgeting and accounting, a shift designed to link the “allocation of costs to outputs and outcomes” (*ibid*: 17). In fact, ROB can be viewed as a new way of thinking in modern budgeting systems:

“Modern budgetary thinking is clearly moving towards performance, with a focus on outputs and a more consistent and sustainable linkage to government policy. To become a reality, the operational structure of the budget must evolve an approach that is focused on outputs as opposed to inputs and does not simply follow incremental rules. The structure must be able to accommodate the setting of objectives, to the assignment of specific responsibilities for achieving results, for a systematic review and analysis, to ensure that budgetary allocations reach their intended targets. Once established, such a structure must also be amenable to the assignment of managerial responsibility and accountability” (USAID 2012a:12; see also UNCDF 2006).

5.5.1.1. Emergence Phase

There is still a lack of an accounting system based on obligation, resulting in the absence of a system to control accruals and disburse expenditures evenly. Hence, there is a need to develop the budget orientation, process, classification of the budget, accountability and transparency, and the credibility of the budget (see USAID 2008). At the request of the European Commission, a team of three experts⁹³ travelled to Jordan to carry out an assignment delegated to them, consisting of an evaluation of the quality of PFM through the methodology designed by the World Bank and explained in a detailed PMF. This framework comprises 31 indicators covering the credibility of the budget, its comprehensiveness and transparency, and the adequate management of the budget process in comparison with donors’ practices and requirements. The mission was arranged by the European Commission as one of Jordan’s main donors. The above mission considered that continuation of its financial support to the government of Jordan could contribute to a better understanding of the dynamics of the

⁹³ The team was composed of the team leader, a Public Finance specialist and structural reform expert, a Chartered Accountant and expert in audit and control procedures in the public sector, and a senior macroeconomist.

Jordanian Reform Program in the field of PFM, which could help both the Jordanian Authorities and the Donor community (EU 2007b). As a result, the IMF and World Bank published a Joint Report in 2004 and recommended that

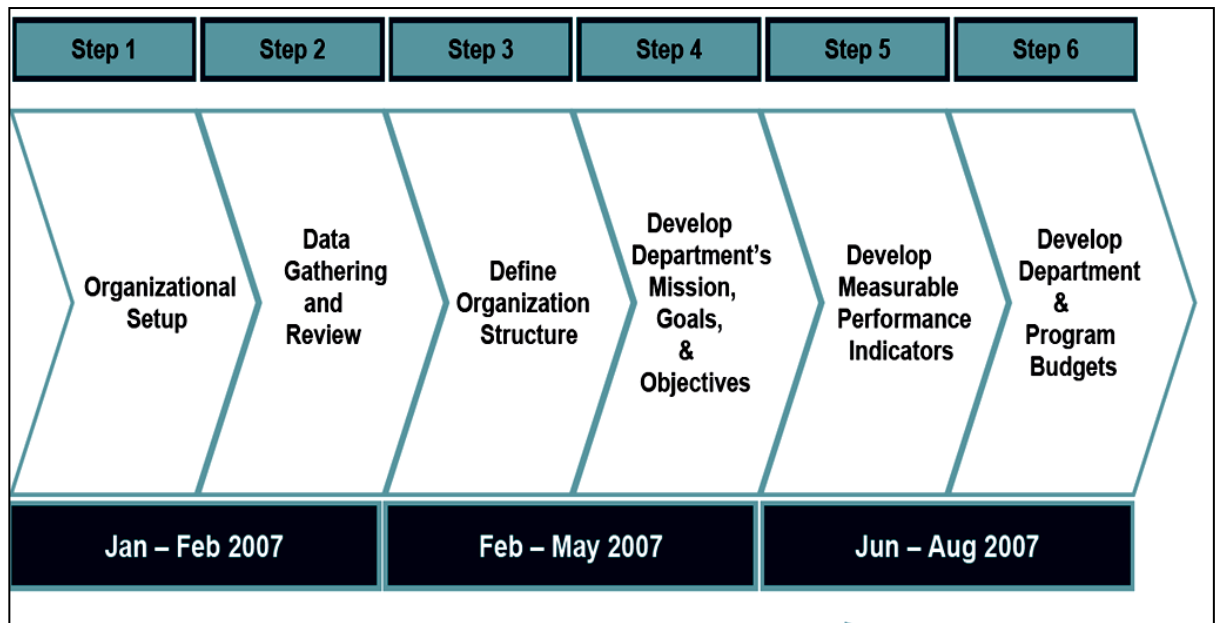
“The long-term objective should be to have a comprehensive budget system that gives a complete breakdown of all budget expenditures, the activities they finance, the outputs that are produced and the outcomes that are realized, and the linkages between the different parameters”.

Accordingly, USAID has supported Jordanian initiatives to implement FRP-I, which aimed to increase revenue collection and tax administration, and introduce a central ROB system. In the meantime, the FRP-I focused on improving the efficiency of the tax system and changing the budget system. To enhance the efficiency and effectiveness of Jordan’s FRP-I, USAID/Jordan granted the implementation task of FRP-I to a professional company, BearingPoint Inc, in 2006. The purpose was to provide technical support to the government of Jordan in the area of fiscal policy (budget) and financial management. BearingPoint Inc. (hereafter consultants) embarked on the three-year project in four aspects: tax policy, tax administration, budget system and management, and a public awareness campaign (USAID 2008).

According to the PMF by the World Bank, Jordan’s FRP-I in the budget management area achieved its planned results and a maximum of 14 out of 17 performance indicators were analyzed. For example, budget management activities shaped ROB capacity within the Jordanian government, consisting of an integrated database of capital projects by linking them with strategic planning process within MTEF⁹⁴. The FRP-I has also provided training programs for about 450 government staff from different organizations in the important areas, such as the awareness of ROB, budget preparation, process, and classification. This complementary work was completed by developing a new COA with various structures that are consistent with international best practices. In addition, the FRP-I was on track to ensure the implementation of GFMIS. However, the project has also achieved planned results for 9 out of 14 tax administration performance indicators, including automated portions of the tax collection process, building internal audit capability, and improving customer service (USAID 2008). In fact, the consultants worked closely with the MOF and GBO to implement the ROB system. Figure (5.26) recognizes the steps of the implementation process of ROB system that took place over a period of time.

⁹⁴ Medium Term Expenditure Framework

Figure (5-26) Implementation Process of ROB System



(Source: USAID/Jordan, GBO)

According to GBO interviewees, three bodies played an important role in the implementation process of ROB within the organizational field. Firstly, the consultants provided the content expertise, organization of training and implementation, and resources for self-directed learning. Secondly, the GBO played a key role in the implementation and diffusion of ROB through an interface between FRP-I consultants and public organizations: (1) adapting ROB system within the organizational context; (2) providing required training and workshops, and sustainability after project completion; and (3) diffusing the system to other organizations within the field. The final and important role was played by public organizations in showing their willingness to implement ROB, prepare and link organizational strategic plans with ROB, and provide actual needs of training and learning. As a result, the implementation of ROB by each organization has included the following changes in comparison with traditional budgets: prepare organizational strategic plan by identifying organizational objectives, mission, and vision, in relation to sectorial and national objectives; link the strategic plan with the ROB system within MTEF; and develop and integrate KPIs into the ROB. Thus, the use of ROB emphasizes the following main criticisms of traditional budgets:

“(1) Expansion and persistent deficits were blamed in large part for the economic depression and as symptomatic of an overambitious role for government, which was largely responsible for inadequate savings, crowding out of investment, lack of incentives, and over bureaucratization and regulation. (2) Budgets were becoming increasingly difficult to control or predict, as a greater proportion of expenditures was taken up by legislated entitlements. (3) Traditional budget making was often incremental in nature. Budgets were built on estimates by units of government - ministries, organizations, agencies - of their

needs for the year ahead, in turn based on their expenditures in previous years. The central budget organization (i.e. GBO) would take those estimates and, by pushing and pulling and negotiating with organizations, would bring them within the framework of a macroeconomic policy. Sometimes the process worked well; guidelines and financial ceilings were adhered to, and the budget was controlled and spent as envisaged. But unplanned deficits and the upward trend of expenditures were uncontrolled and measured precisely. (4) Non-discretionary expenditures (entitlements) and revenue reductions were not subject to the caps. However, any proposal to increase an entitlement or reduce revenue had to be counterbalanced by a cut elsewhere or a revenue increase. This formula is called a zero-sum game. (5) Budgeting would be a transparent process that would emphasize public accountability and facilitate agreement among a broad consistency” (Caiden 1998:254-60).

According to Caiden,

“The new generation of budget reforms [i.e. ROB] involved a searching examination of what [public organizations] really did, how expenditures were decided and carried out, and how existing processes could be made more efficient and effective to accord with constrained resources and changing priorities. These reforms fell roughly into six areas: 1) reforms capping expenditures; 2) reforms to enhance performance evaluation and productivity; 3) reforms decentralizing management; 4) reforms setting up quasi-markets; 5) reforms improving financial management; 6) reforms integrating budgetary management” (1998:254).

In this regard, Osborne and Plastrik (1997) identified principles of entrepreneurial government; one of these principles is the MFR approach: Funding Outcomes, Not Inputs. They affirm:

“Results-Oriented Governments shift accountability for inputs (Did you follow the rules and spend according to the appropriate line items?”) to outcomes or results. They measure the performance of public agencies, set targets, reward agencies that hit or exceed their targets, and use budgets to spell out the level of performance legislators expect for the price they are willing to pay” (Osborne and Plastrik 1997:348).

5.5.1.2. Diffusion Phase

The MOF represented by GBO implemented the ROB system in 2008. The budget has been restructured into programs and for the first time the budget included KPIs (targets) for programs and projects. Hence, it presented an integrated approach to value-for-money budgeting by allocating expenditure according to programs, sub-programs, projects and activities, and not just inputs. In this way, the procedures of policy, financing and implementation were involved and coordinated in the budget process. In 2008 and 2009, ROB was implemented at a program and project level in Jordan. The 2010 ROB Budget has extended the reform to include budgets at an activity level (UNICEF 2009). The GBO thus developed a new budget methodology and manual in 2008. This required the inclusion of strategic goals for each ministry/organization and key performance indicators (KPIs) by identifying desired results for each program. The ROB methodology⁹⁵ overcomes deficiencies

⁹⁵ To meet ROB methodology, each public organization or ministry should prepare its strategic plan, including organizational goals, mission and vision, and link it with national goals through sectoral goals. In this way, the

of previous traditional budget methodologies, which accounted for the levels of expenditures rather than outputs. By including outcomes and outputs in budget statements, ministries/organizations can be held accountable for achieving results (UNICEF 2009). ROB focuses on KPIs that are mainly measures of the effects of a program (outputs and outcomes) rather than the causes of a program (inputs, actions, processes, and intermediate outputs). Hence, ROB incorporates efficiency indicators in the KPIs. ROB chooses SMART⁹⁶ indicators and target levels for performance (USAID 2011b).

Along with FRP I, the ROB was implemented in the first time in six pilot sites after the successful implementation in the GBO. These selected sites are GBO, Ministry of Transportation, Ministry of Health, Ministry of Education, Lands and Surveys, and Ministry of Industry and Trade. Afterwards, the ROB was diffused to all other public organizations and ministries including JCO. The adoption of ROB system in these pilot organizations not only exposed these organizations to modern approaches to budget planning and management, but also reinforced healthy competition for program funds within organizations, triggered better engagement across public organizations supporting common programs and objectives, and, finally, resulted in more cost-effective and better budget proposals (USAID 2011c). FRP II has continued to deepen knowledge and practice of the ROB system by extending its diffusion to several new public organizations, by fostering greater consistency in budgeting across public sector, and by promoting increased inter-organizational coordination and communication throughout the budget process (*ibid.*).

In Jordan, the GBO in the MOF is responsible for preparing a budget by using limited resources to maximize achievement of national objectives. In the Planning Stage, MOF and GBO prepare the budget framework in consistency with ROB, with approval from the Cabinet. In the Preparation Stage, the budget formulation process starts one year prior to the beginning of the fiscal year. Since 2008, a three-year strategic planning process (i.e. MTEF standard) has been introduced. Each line ministry and public organization needs to submit a development program in accordance with the ROB system together with a strategic financial plan which is based on the previous year's State Budget Strategy. The GBO consolidates submitted development programs and proposals into the Central ROB system. The Central ROB system is discussed and approved by MOF and the Cabinet in an official Government

ROB process establishes KPIs that are reported in organizational strategic plans, to measure and analyze the progress of government projects and programs.

⁹⁶ specific, measurable, achievable, relevant, and time-bound

Session which discusses it as draft budget law (see Tikk and Almann 2011). In the Ratification Stage, the Jordanian Parliament discusses the draft of the budget law, and approves it as the Annual Budget Law; the King then confirms it. Approved law is published on the website of the GBO. In the Execution Stage, public organizations and ministries execute the budget, with supervision by GBO and MOF. In the Auditing and Evaluation stage, the Audit Bureau, GBO and public organizations and ministries review the execution of the budget in conformity with legal requirements and progress towards national policy objectives (USAID 2012a).

GBO in cooperation with all public organizations and ministries supports the process of using ROB practices. These practices involve budget classification and COA, strategic planning, KPIs, budget analysis manual, and budget cycle manual. The ultimate goal of the budget process is not simply to formulate a budget, but rather to build good policy through the system of the budget. Hence, it is important to view the budget process in terms of its role in developing and implementing national policy. Simultaneously, a properly implemented budget process also ensures that public funds have been spent in the manner legally required, consistent with national objectives. In this way, the ROB system enables public organizations and ministries to achieve the objectives of the National Agenda (USAID 2012a). Consequently, the GBO has implemented a countrywide “ROB system”, a methodology that attempts to link public expenditure on projects with national policy objectives (USAID 2011b). By creating links between national policy objectives, funding and results, financial analysts can identify those activities that create the best value, considering the cost of achieving different results. The ROB system uses ‘program’ or ‘performance’ formats, which link the expenditures to what they will achieve by measurable KPIs - how much money will be spent on each of the outputs that benefit the citizens (USAID 2011b).

In short, the ROB is used by public organizations and ministries (as preparers), and budgetary and planning organizations (as reviewers), to allocate resources based on problems and needs - i.e., the programs address the results they are expected to achieve. The allocation base is thus informed by trends in KPIs, needs, problems and opportunities. In addition, the analysis of ROB has been used to guide and improve the implementation of programs and capital projects (i.e. more than one year). The ultimate ROB document may contain information presented in a combination of program and/or performance budget formats (USAID 2011b; 2012a). Public organizations and ministries regularly prepare their ROB aligned with the

strategic policy plan. Hence, ROB system brings policy decisions into the budget process by stating what policy objectives are to be achieved, who is responsible for implementation, what work they will undertake, and how much money the government will spend on that work. If this plan is properly developed and presented in the budget, the budget will represent an agreement on how to prioritize government actions and results (*ibid.*). In this way, the ROB recognizes the transparency and accountability within the organizational field.

The ROB prepared by every public organization should be linked directly to the performance measure⁹⁷ of defined targets. The use of KPIs in the organizational strategic plan can help to compare actual performance with goals and explain variances. Only those organizations that can demonstrate a measurable improvement in economy, efficiency or effectiveness will receive increases, and unjustified variance from targets will be penalized. The information of KPIs should thus be used to improve accountability and encourage employees to think more clearly about the results of their work and their responsibility to deliver government programs economically, efficiently and effectively. It should also support the Audit Bureau in determining the propriety of expenditures and whether value for money is being achieved (*ibid.*). Furthermore, KPIs confirm an increasing emphasis on improving quality of service as well as the more usual economy and efficiency measures (*ibid.*). As a result, the ROB process evaluates various ways of working and thinking that public organizations employ in working towards achieving shared or related goals and plans. ROB analysis identifies what is needed to achieve goals and objectives recognized by external factors that influence the organization's ability to achieve performance outcomes.

The organization can thus work with other organizations in the same field that have the responsibility or ability to address those external factors. In this way, ROB analysis promotes the comparison of different approaches or alternatives to achieve mutual goals and objectives, which helps the homogeneity (isomorphism) to become clear within the organizational field. The organization itself can also learn from the processes and achievements of other organizations that work towards achieving similar goals and objectives. In the ROB process, the annual budget recognizes KPIs to be reported and supports the use of data from impartial organizations, or impartial validation of public organizations and department data. It also

⁹⁷ The use of performance measurement aims to link planning, budgeting and accounting systems and integrate them with the routine operation of performance measures and indicators. Thus, operational planning systems have since been developed to bring together information by activity, on resources, workloads, results, outputs, and KPIs. Each system compares outcome against plans and targets (Osborne and Plastrik 1997).

requires documentation by the issuing of papers and other systematic reports of the budget analysis, which lead to strategic decisions (USAID 2011b).

Accordingly, the budgeting system is fundamental to effective operations of a contemporary government. It is a key tool for the implementation of government policies and programs. The state ROB system is thus seen as a political document (USAID 2010a). Although expenditure choices are necessarily political, it is the role of the budget process to provide politicians and other key decision-makers with a coherent menu of options for meeting both their own priorities and those of society as a whole. In this context, budget allocations can be improved by depending not only on an effective ROB system, but also on the ability to secure support and agreement, especially political support and agreement, and to promote a demand for disciplined, policy-based decision-making. Accounting systems such as ROB and GFMIS have the potential to improve budgetary decision-making, but they can never replace the political process of making those resource choices (USAID 2010a; 2011b).

However, ROB should not be viewed as an isolated initiative. Rather, it should be seen as part of a set of broader reforms – often referred to as MFR approach – designed to focus PFM more on results delivered and less on internal processes or inputs. These broader reforms include the GFMIS system designed to increase the efficiency and effectiveness of public resources, organizational restructuring to increase the focus on service delivery and improve coordination, and institutional and supervisory changes to strengthen public accountability of performance. The ROB system is an important complement to the implementation of the GFMIS system, which makes information more easily available to ROB and also reduces the bureaucratic workload of budget analysts and decision-makers; thus, they make more time for ROB analysis and focus on strategic objectives (USAID 2011b). GFMIS implementation helps MOF efforts to improve internal financial control throughout government, as well as the efficiency and effectiveness of public expenditure (USAID 2011c).

5.5.2. Government Financial Management Information System (GFMIS)

To implement ROB automatically, the government introduced GFMIS along with a new COA, in conformity with the IMF Government Financial Statistics. On the one hand, GFMIS implementation assists MOF efforts to improve internal financial control throughout government. It also enables not only greater control and efficiency but also transparency in the use of public resources. Hence, it provides one integrated system to be used by all Budget

organizations, which can collect all the information needed to present the budget in any format. The data in all Budget organizations are processed through the secure governmental network. In doing so, new internal financial control by-laws have been developed with FRP II assistance; hence, new measures have been created to ensure financial compliance and reduce opportunities for the diversion and misuse of public funds (USAID 2011c). On the other hand, the new COA sets uniform and consistent accounting norms and facilitates the use of ROB to identify expenditure for specific programs, activities and projects. The new COA thus has six levels of classification built in GFMIS to facilitate the budget preparation and process. This budget cycle in GFMIS tackles all the procedures related to general budget preparation, planning, and execution, from the Budget Preparation Circular to approving the General Budget Law, issuing the special and general orders, and performing financial transfers and allowances (USAID 2012a).

5.5.2.1. Emergence Phase

Jordan's economy was affected by the global recession and growth slowed in 2009. As a result, policies of economic revival have struggled together with enthusiastic domestic obligations by the government to understand the mass problems and be responsive to its citizen's urgent needs. Therefore Jordan's economic organizations have worked with the USAID-funded FRP II to support recovered macro-fiscal management as a key solution to these intricate challenges (USAID 2012b). During the last few years, the Jordanian Government represented by MOF has undergone many changes, prompted by several reform initiatives. One of the "pillars" of these initiatives was represented by the change in the accounting system. However, public accounting has traditionally been on a cash-and-obligation basis and focused on compliance with the budget. The changes are generally inspired by managerialism principles and a fundamental aspect of these reforms is represented by innovations in financial and accounting systems (Hood 1995; Guthrie *et al.* 1999). Accounting systems are considered to play a vital and constitutive role in NPM reforms, influencing the perceptions of organizational actors and contributing to the diffusion of a culture of change and institutionalization in the public realm (Meyer 1998). These systems can shape organizational actors' reality, spreading notions such as value for money, technology, accountability, efficiency and effectiveness, turning them into newly-shared meanings and values. Simultaneously, existing accounting institutions and organizational inertia may constrain the process of change, negatively influencing the path of development of new MAPs and systems (Caccia and Steccolini 2006).

As an integral part of the government's endeavors to reform PFM in Jordan, the MOF has adopted a comprehensive strategy of FRP II for the period 2009-2014 as one of the major cornerstones for reforming the public sector and completing the first part of the fiscal reforms project. Thus, FRP I was complemented by FRP II, which started in early 2009, when USAID and Development Alternatives Inc. (DAI) signed the implementation task contract of the project as the lead company of the joint venture. DAI was thus held responsible for management and implementation of FRP II. The project has spanned four years, with one optional year which terminates in 2014 (Intracom 2012). FRP II involves the following six components: A) Tax Revenue Mobilization; B) PFM; C) MOF Capacity and Structure; D) JCO Administration and Trade Facilitation; E) ROG; and F) GFMIS.

FRP II comprises many reform initiatives among which the key initiative is that which deals with all PFM reform programs aimed at helping Jordan's fiscal policy to achieve its objectives, maintaining fiscal stability and avoiding financial crises through more efficient allocation of available financial resources in accordance with national priorities. Underlying these reforms is the need and intent to integrate existing stand-alone PFM systems under one integrated GFMIS to assist the government to more effectively plan and manage the State's financial resources. So far, FRP II has focused its efforts on making budgeting and the reporting of public finances more effective by assisting the GBO to match budget preparation and execution according to global best practice, and by supporting the MOF to implement GFMIS for the reporting and standardized implementation of all financial transactions (USAID 2010b). The particular objectives of the GFMIS project in supporting the PFM role are to improve the following (see Intracom 2012):

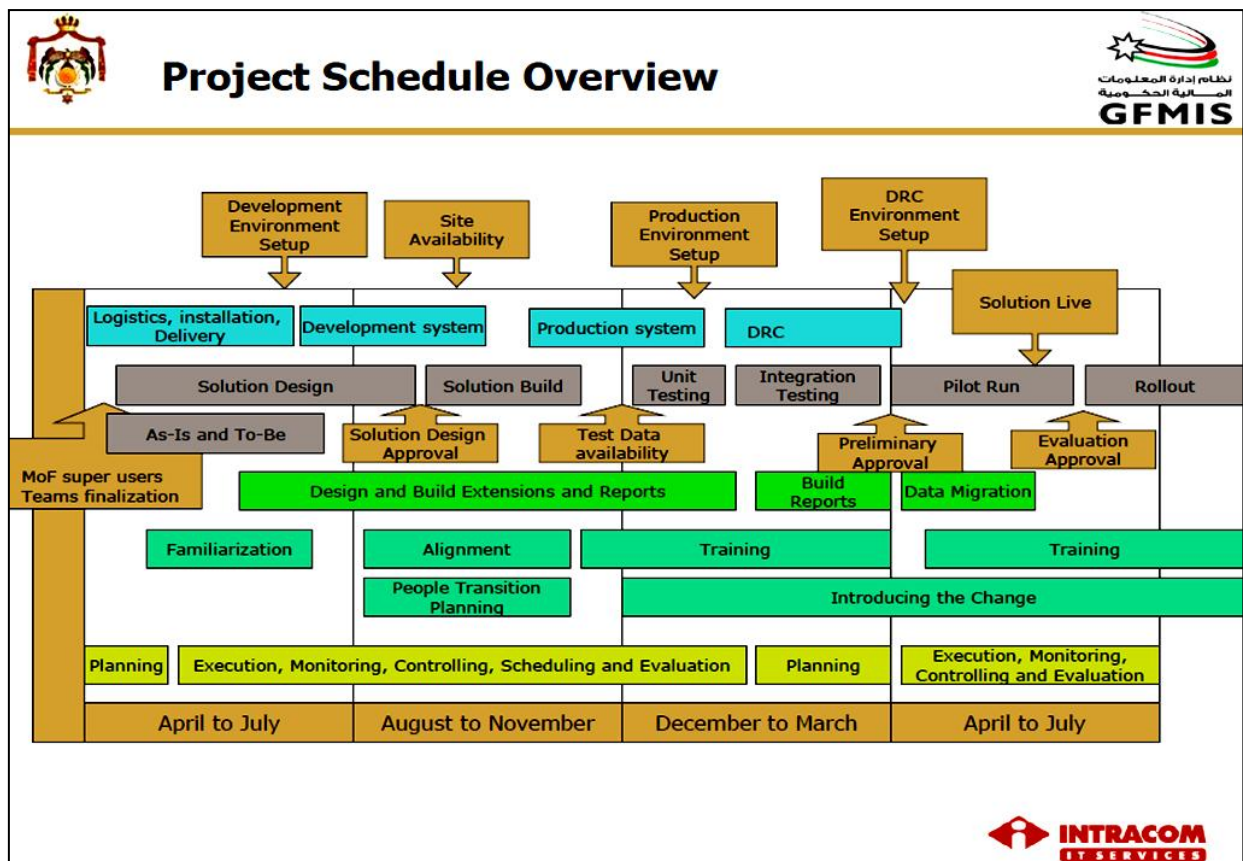
- (1) Transparency and conformity with international best practices in budget execution; (2) Accuracy, timeliness and relevance of fiscal reporting at each level of government; (3) Budget execution by ensuring that payments are made in accordance with the budget law and within expenditure limits and cash constraints; (4) Timeliness and accuracy of banking and reporting the revenue collections; (5) Accessibility of information about financial management and budget execution to the legislature for decision-making purposes; and (6) Fiscal sustainability through more efficient and effective management of cash.

As discussed in the preceding sections, MOF signed a contract in 2005 with the American consulting company, BearingPoint Inc., in order to evaluate the PFM functions in Jordan by studying and analyzing all reports and recommendations provided by the international interested parties, leading to development of strategies for the necessary reforms (GFMIS 2012). BearingPoint had introduced several recommendations, one of which was to adopt the GFMIS project in order to change stand-alone PFM systems used in MOF and related

organizations into an integrated GFMIS. The principal aim of GFMIS is to simplify the operating procedures of the financial and accounting functions in these organizations, and to provide effective tools for control, planning and decision-making processes (*ibid.*).

The GFMIS can play a significant role in the PFM reform program and provide the required controls and reporting purposes to assist in achieving the fiscal policy objectives. To do so, the MOF sought to introduce a modern computer-based GFMIS, together with the necessary system integration to ensure full internal integration of the provided accounting system, and complete interoperability with the remaining existing accounting systems. The GFMIS is being used to track government financial operations and the related financial reporting, enhancing transparency and strengthening fiscal discipline in the Jordanian government. However, the management believed that it could be further implemented through a modern comprehensive system that matches instantaneous requirements for decision-making; it was also capable of being enhanced to accommodate future developments in the realm of the PFM (see Intracom 2012). Bearing in mind the above, the implementation project of GFMIS was awarded to INTRACOM S.A following a negotiation phase about certain financial and technical requirements. In early 2008, the MOF signed a contract with INTRACOM (hereafter consultants), who started the implementation process of GFMIS in the same year. A change in accounting systems can lead to a change in the organizational structure. Hence, a new directorate was established to manage the project within the organizational structure of MOF, which reports directly about the implementation stages to the MOF and Cabinet (GFMIS 2012). Figure (5.27) displays the implementation process of the GFMIS project in accordance with the agreement between the project management and INTRACOM consultants.

Figure (5-27) The Implementation Process of GFMIS Project



(Source: USAID/Jordan, GFMIS Project)

The consultants have provided an integrated solution, including the development of software applications, the installation of infrastructure and networks, training, support and maintenance, by using services and products from ORACLE, IBM and many other languages (see Intracom 2012). The implementation process included the supply, installation, integration, training, technical support and implementation services of a commercially available and integrated software solution and hardware platform for the GFMIS (*ibid.*). The recently concluded new bylaw on internal financial control led to improved control over budget execution and strengthened financial supervision. In this regard, the Audit Bureau has also introduced “performance auditing” to complement its traditional financial audits, which helped to narrow the gap between ROB and government performance. However, after a few years the MOF implemented its new GFMIS, which automates many phases of budget planning, execution, process, accounting, treasury operations, and reporting. All of these helped to achieve better control over public finances and more efficient and effective deployment of public resources (USAID 2011b).

5.5.2.2. Diffusion Phase

The GFMIS system was implemented and disseminated as a first stage at the following pilot sites considered as pioneering sites: MOF; GBO; MPIC; Ministry of Education; Ministry of Health; and the Aqaba regional finance center. Afterwards, it was diffused to 48 other ministries and public organizations, and (15) regional finance centers as a second stage of implementation within the Jordanian context. One of these public organizations was JCO. The Project Plan was jointly prepared by consultants and MOF in the form of contract terms, and was signed by the top management of MOF in late 2008. Thereafter, both decided to use the accounting basis (Cash or combined Cash-Accrual) underpinning GFMIS design. This was decided in a workshop which discussed the best options for GFMIS implementation. At the end of the workshop, the participants decided to use the Cash basis of accounting built into GFMIS.

The consultants also submitted their suggestions regarding the COA to be implemented in GFMIS. As a result, and according to the complicated process of ROB system and stand-alone PFM systems used in different organizations, the GFMIS now helps to computerize the whole life cycle of budget preparation, classifications, budget execution, and financial reporting. In doing so, an integrated GFMIS has contributed among all public organizations to ensure transparency and accountability in the resources allocation, use and monitoring of Jordan's public resources. In this way, the GFMIS has linked all public organizations to support the decision-making process and prompt control of the trade balance. The GFMIS has enabled the government to implement budget preparation and execution processes systematically and interrelated across all public organizations (both expenditure and collection agencies) (USAID 2012c).

The GFMIS has improved governance and fiscal management by providing real-time financial information that managers can use to manage programs and capital projects effectively, formulate budgets, and allocate resources. Nowadays, GFMIS is being applied in most public organizations including JCO. These organizations are managing a sizable share of government financial transactions, including most expenditure and large portions of other financial transactions. In 2011 the entire central ROB was prepared in accordance with the GFMIS; this was the first time that the budget had been prepared using an integrated automated system (USAID 2012b). Thus, GFMIS enabled each program to be split into subprograms through the COA in the form of programmatic classification. The final level of

this classification is the activity and project level. The programmatic classification is developed to enable the reporting of budget execution to be processed in terms of program format (GFMIS 2012). Accordingly, GFMIS represents a significant achievement in PFM by controlling the expenditures and revenues, and by ensuring that allocations, transactions and appropriations are all aligned; non-appropriated expenditure cannot happen without proper authorization and notification; inter-organization financial transfers are controlled; proper accounts are charged, thus preventing misuse of trust accounts; and expenditure commitments are accurately controlled. In so doing, GFMIS reduces accounting errors and opportunities for corruption, and helps the government to achieve macro-fiscal objectives (USAID 2012b).

5.6. Conclusions

This chapter has explained that the Jordanian government faced various institutional pressures stemming from political and economic challenges. These challenges were intensified by the scarcity of natural resources, large budget deficits, soaring levels of debt, structural unemployment, high tax pressures, poor quality of public services and bureaucratic public management. As a result, Jordan launched the National Agenda in 2005, which represented a remarkable milestone in efforts to build a modern Jordan and address these challenges facing the country. The Jordanian government has implemented many political and economic reforms that stemmed from the National Agenda, as public sector reforms redefined the State's role in the economy and re-oriented the economy from a planned, collectivist type to a more free-market economy. This led to transformation from a traditional management approach towards the NPM. This indicates that the changes in the Jordanian public sector towards NPM ideas were substantively underway in 2008, especially after the implementation of the FRP strategy in two stages, focusing on the MFR approach.

The chapter findings show how the Jordanian government reforms produced better 'MFR' orientation and a focus on strategic planning techniques that may strengthen short- and long-term managerial concerns with working processes within individual public organizations (Modell *et al.* 2007). Hence, there is some basis for arguing that the emerging reform agenda may represent a turn to NPM systems of public financial management. As all accounting systems have usually been associated with the 'bureaucratic' paradigm rooted in pre-NPM practices (Hood 1991; 1995), the study explains that the 'new' process of NPM concerns conforms to a more external focus on fiscal reform agenda, in response to political and economic pressures. The study witnesses that, at the political and economic levels, there is

clear evidence of ‘MFR’ entailing the implementation of alternative accounting systems (Pierson 2000). This has stressed the dominant position of the ‘MFR’ approach, including GFMIS and ROB system, at the expense of bureaucratic management practices, and emphasizes the path-dependent and evolutionary nature of change (Modell *et al.* 2007). Furthermore, the MFR approach was accompanied by incremental changes in existing organizational culture and structure in search of excellence, such as the KAA excellence model and TQM Principles.

The implementation of NPM, and possibly of post-NPM reforms (such as ROB and GFMIS), may have emerged primarily as a response to external pressures. This environmental determinism may have resulted from an active national administrative policy and constraints from historically-developed administrative cultures (Olsen 1992). The reform initiatives and programs are not characterized by a simple adjustment to existing administrative doctrines. They are evidently filtered, interpreted and modified through the combination of two more nationally-based processes (*ibid.*). The diffusion process implied three isomorphic elements; i.e. it created pressure for similar reforms and structural changes in many governmental aspects, especially the ways of thinking and doing (DiMaggio and Powell 1991; Christensen and Lægreid 2007). The JCO is no exception, so the following chapter explains how JCO responded to the external pressures by implementing the ‘MFR’ approach, especially the ROB and GFMIS systems, and what is the most dynamic of management accounting and organizational changes inside the JCO case-study.

CHAPTER SIX: THE ‘JCO’ CASE-STUDY

6.1. Introduction

As discussed in the fifth chapter, Jordan introduced a comprehensive National Agenda as an umbrella term for Jordanian national reforms in response to political and economic pressures. The fiscal reform pillar including the MFR approach was considered a key component of the reform process toward NPM. The MFR approach, as the main reform of PFM, aimed to improve resources allocation, budget processes, deficit and debt management, and performance measures. Since the budgeting-for-results system, as an integral part of the MFR approach, links national objectives with organizational strategic objectives through sectorial objectives (i.e. at organizational field level), the government requires the Jordan Customs Organization (JCO) to prepare its strategic plan in conformity with the central budgeting-for-results system to measure the effectiveness and efficiency of JCO’s strategic objectives in achieving the national objectives. Accordingly, the MFR approach has become the prevailing culture and thinking in the governmental field in which JCO operates.

The previous chapter together with this chapter develop an analysis of institutional interaction and provide an empirically structured answer to the first research question, specifically (1) *‘what were the institutional pressures (powers) that affected the emergence and diffusion of management accounting systems? How did they interact through three levels of institutional analysis?’* In addition, this chapter also addresses the last two research questions: (2) *‘How have processes of management accounting systems, particularly budgeting systems, been implemented and changed within JCO?’*; and (3) *‘How have the dynamics of organizational change and ICT affected management accounting change?’*. Accordingly, this chapter presents the results of the JCO case-study and is structured as follows. It starts with details of the historical background of JCO followed by a number of sections (6.3 - 6.6) that identify the various organizational aspects, i.e. organizational strategy, structure, market and stakeholders, and customs system processes. Section (6.7) shows the dynamics of organizational change in achieving ‘external adaption’ and ‘internal integration’. The following section (6.8) explains the dynamics of management accounting change, especially the implementation of the MFR approach and budgeting systems (ROB, JCFS, and GFMIS). In section (6.9) of the chapter, the interaction process between management accounting and organizational change is discussed. The chapter ends with conclusions constructed from this substance.

6.2. Historical Background of the JCO

JCO is a large public organization established in 1921⁹⁸ (Act No. 22); it is a geographically distributed and labor-intensive organization that provides services to the public. Jordan, being at the heart of the Arab World, maintains its strategic location at both the regional and international levels; therefore there was a dire need to establish a governmental agency that could control and manage the exchange of goods and commodities to and from Jordan. Since its establishment, the organization has had several names. During the period from 1926 to 1935 it was named “Directorate of Customs and Excise”; from 1936 to 1951 it was the “Directorate of Customs, Trade, and Industry”; from 1951 to 1956 it was the “Ministry of Trade/Customs”; and, from 1956 to 1983, it was the “Ministry of Finance/ Customs”. It has since been called the “Jordan Customs Organization” (SP 2008).

Although the Jordanian government required JCO to be socially and politically efficient, it has also been preventing it from behaving in a purely economic manner. JCO provides public services for more than seven million people spread across a geographical area of over 89213 km². Thus, soon after the establishment of the JCO, a considerable number of Customs Houses (branches) were established as a result of the increase in trade activities. Currently, a total of 63 major and minor Customs Offices and Directorates are operating in the country, with the headquarter of JCO located in Amman. These Customs Houses can be classified into four main categories - Clearance Offices, Border Offices, Post Offices and Centers, and customs offices in ‘Qualified Industrial Zones’ - in addition to two Customs Laboratories in Amman and Aqaba.

JCO is headed by a Director General reporting directly to the Finance Minister and carrying out the functions of government under the direction of the Minister of Finance. In terms of legislation, the first law to regulate customs work in Jordan was issued in 1926 and was known as the Customs and Excise Law. It was modified in 1936, 1949, 1952 and 1959 to deal with on-going developments at both the national and the international levels. In 1962, the Customs and Excise Law was replaced by the Customs Law no. (1). It remained effective until being substituted by the Temporary Customs Law no. (16) in 1983. As Jordan experienced political and economic developments, a new Customs Law no. (20) in 1998 was issued to replace the Temporary Customs Law. This new law was confirmed in accordance with the constitutional principles.

⁹⁸ The JCO history dates back 91 years.

In the beginning, the traditional role of JCO was simply to provide the Treasury with revenues. However, as a result of the developments in the political and economic contexts, the JCO has played a significant role not only in meeting the objectives of the government, but also in implementing effective and efficient controls⁹⁹. Consequently the objectives of JCO have expanded to effectively support the national economy, promote investments, facilitate trade movement, combat smuggling, protect the local community and the environment from hazardous materials, and to control the movement of passengers, goods and means of transport passing through the Kingdom (Law No. 20, 1998). In doing so, JCO aims to facilitate commodities movement and goods exchange at the international level, and to eliminate all obstacles by reducing customs duties on imports, exempting a large number of goods, and conducting negotiations with other countries and signing trade facilitation agreements with them (JCO Report, 2006). Accordingly, JCO has changed the Customs Employees Statute instead of subservience to the Civil Service System into applying a special paramilitary system under Law no. (69) for 2006, which was amended to Law no. (30) for 2007¹⁰⁰.

The JCO has thus witnessed many developments at the organizational level that were affected by various social, technological and economic pressures. This has made the JCO an important part of an interconnected system that works in consistency with the State's public policy to achieve all of the Royal initiatives and national objectives seeking to promote and support the homeland. It has adopted advanced technology for the benefit of the work and the employment of the E-government model. JCO also makes sustained efforts and has a continuous interest in the field of human resource development and performance improvement to the maximum degrees of excellence and innovation. The JCO has achieved quantum leaps by using different methods of modernization and development in all areas of customs work, providing an appropriate working environment for staff and promoting human cadre capabilities which reflect the efficiency of the service rendered to customers. JCO has played an integral role in the development of the Jordanian economy through its significant contributions in terms of inputs (financial resources) and job creation. Annual customs

⁹⁹ Controls that ensure compliance with national laws and international agreements, and safeguard revenue and public properties as well as society.

¹⁰⁰ The application of a paramilitary system by JCO led to many changes in organizational aspects including the following: wearing customs ranks and paramilitary uniform, establishing an internal discipline council, employees' code of conduct, revising employees' situations and positions, an emerging customs role and responsibility especially on the borders, increase in the employees' basic salaries and compensations, reducing corruption and increasing the employees' loyalty to JCO (see JCO report 2007)

revenues including import taxes amounted to (JD 1,344.87 Million) in 2011, which represents approximately (30%) of the Jordanian budget, and approximately 3000 employees have been working in this organization (see Table 6.9).

Table (6-9) Distribution of JCO Staff according to Qualifications in 2010-2011

Qualification of JCO Staff	2010	2011
	Total	Total
PhD	11	12
Masters	131	139
High Diploma	14	16
Bachelors	954	989
Comprehensive Diploma	294	300
Diploma without a Comprehensive Exam	18	18
General Secondary	609	636
Less than General Secondary	964	865
Total	2995	2975

(Source: JCO Annual Report, 2011:25)

Furthermore, Jordan is a member of the World Customs Organization (WCO). The WCO is a non-governmental organization established as the Customs Co-operation Council in 1952 in Brussels (Belgium), comprising 179 customs administrations all over the world. The WCO mission is to enhance efficiency and effectiveness of customs administrations, systems and procedures. It comprises six regions in the world and each region represents many countries. The administration of JCO was selected as regional representative and deputy president of the WCO in 2006 through an election process. The regional office represented by Jordan is held responsible for the region of North Africa and the near and Middle East. The aim of the regional office is increasing cooperation, exchanging expertise, and promoting coordination among the customs administrations of the region.

The JCO is considered among the world's most developed customs organizations in terms of developing accounting and technology innovations consistent with WCO requirements, as

well as providing high-quality customs services, exceeding stakeholders' expectations. These innovations include risk management, single window, management control system, E-customs, E-tracking system, golden list program, E-archiving system, Total Quality Management (TQM), Just in Time system (JIT), Balanced Scorecard (BSC), customer service system, information technology systems, ASYCUDA system, strategic planning, ROB system and GFMIS, etc. All of these innovations along with staff qualifications have enabled JCO to acquire many awards, especially the KAA for Excellence Performance in 2007 & 2011, and the WCO Award in 2011. These awards came as result of the accumulated efforts made by the JCO to develop and modernize customs work and implement the best global practices through the adoption of many creative and evolutionary ideas. This in turn facilitated the movement of trade in the interest of security and facilitation of the international trade supply chain, which is clearly recognized in the organizational strategy of JCO.

6.3. Organizational Strategy

Organizational strategy is defined as the discipline and expertise that converts strategic intent into organizational capability, commitment and performance¹⁰¹. Organizational strategy focuses on the relationships among organizational environments, strategy processes, strategy content, and organizational performance. The term strategy process (or strategy-making) refers to how objectives and actions are selected or formulated (Hart 1992). The outcome of this process is strategy content itself, which is “a pattern of action through which [organizations] propose to achieve desired goals, modify current circumstances and/or realize latent opportunities” (Rubin 1988:88). Miles and Snow (1978) suggest that managers develop continuing patterns of strategic behavior that seek to align an organization with its environment (Boyne and Walker 2004).

A symbolic mode of strategy-making is when successful leaders tend primarily to articulate a mission and create a vision and widespread perspective that guide the actions of organizational members toward a common goal (Hart 1992). The organizational levers available to top management can thus be conceptualized as ranging from the articulation of organizational mission and vision, on the one hand, to concern for informal processes and people on the other, with a range of levers falling in between. Thus, the mission and vision should reach everyone in the organization and serve as a guide to their individual behavior

¹⁰¹ http://www.charlesmore.com/clienterv_orgstrat.htm

(*ibid.*). During the interview, a Strategic Planning Officer of JCO explained the organizational strategy of JCO as follows:

Organizational strategic plan is prepared every three years (within medium-term framework), taking into account any required new systems, projects and programs. Before six months from the end of the third year, we start to prepare a new strategic plan for the three subsequent years. We start the preparation procedures by sending letters to the customs directorates and offices asking about their expectations and developmental projects for the next three years compared with the current situation of their work, and all depending on their location and surrounding circumstances with consideration of the external environment. Afterwards, we collect the returned letters and make filtration for similar projects as well as other projects between these directorates and offices. These projects are listed under programs; both are measured by performance indicators which are linked and listed under strategic objectives that stem from national objectives. This plan must always include organizational objectives, vision and mission.

It is evident from the above argument that the JCO strategy has been established in a way that makes it comply with the strategic objectives of MOF for a medium-term strategic plan taking into consideration continuous modernization of these objectives and serving national and international socio-economic objectives of the Kingdom. Hence, strategic objectives of JCO usually emanate from ministerial and national objectives. JCO usually translates its objectives into programs and projects, and it evaluates the progress of these projects by measurable KPIs and related targets (as set out in the following table 6.10).

Table (6-10) Objectives Intersecting Matrix and their KPIs

The National Objectives	The Sectorial Objectives	The Strategic Objectives	Key Performance Indicators (KPIs)
Development of Jordanian Economy so as to be prosperous and open to regional and global markets.	Providing a favorable environment for businesses and investment to enhance the competitiveness of the national economy.	Anti-smuggling and combating illicit trade activities	Smuggling Cases
			Customs Violations
		Contributing to motivate the investment environment	Time release of goods(by minutes)
			Free trade agreements
			exemptions granted
		Supplying and enhancing the financial resources of the Treasury	industry inputs exempted
			The value of customs revenues (billion)
Reinforcing the government administration so as to be financially stable, transparent and accountable	Reinforcing financial stability of the public budget and improving the financial management levels	Developing performance and institutional capacity	Operating expenses control
			The service recipients' satisfaction
			Employees' satisfaction
			Training plan
			Upgrade automated systems

(Source: JCO Strategic Plan 2011 – 2013: 31)

JCO has thus been established to achieve objectives that must be consistent with the guidance of the wise leadership, as well as national objectives and national aspirations for the future of Jordan. It has worked to develop several of the required systems to provide a distinguished customs services, to simplify work procedures and to use modern technologies (SP 2008). The organizational strategy, vision and mission of the JCO have been modified in accordance with new environmental challenges as follows:

The JCO vision is: *"To be the pioneers of distinguished customs services, in accordance with the best international practices, exceeding the requirements and expectations of our customers"* (AR 2011:6). The JCO mission is: *"Provide our customers and stakeholders with distinguished customs services that keep up with rapid global developments, meet all the requirements of comprehensive and sustainable development by striking a balance between customs control, compliance and trade facilitation, and to continue with customs institutional capacity building"* (AR 2011:6).

The organizational strategy can be either prospector (first mover) or defender (imitator); and competitive strategy can be either differentiation strategy or low-cost strategy (Porter 1987; Lord 1996). In JCO, the vision can be considered as that of prospector as the organization seeks to provide high-quality services and innovative targets. At the same time, the mission is seen as a services diversification strategy through the aim to provide a wide range of services and to work in a dynamic environment. Bowman (1990) stated that a good mission and vision for an organization must include the following: a) statement of values and beliefs; b) the organization's products or services that will be sold and its ability to satisfy the needs of customers; c) how it will reach markets; d) the technologies that will be used by the organization; e) the organization's attitudes to growth and financing.

Prospectors are likely to be pioneers, searching for new markets and experimenting with responses to emerging environmental trends (Miles and Snow 1978). It is expected that the characteristics of a public-sector prospector would thus include innovation and rapid organizational responses to new settings, which in turn proposes that they would be leaders in their field, "first movers", and perhaps winners of innovation awards (Downs 1967). Overall, it is expected that a prospector will be more proactive than other organizations (Boschken 1988). In contrast, a defender does not strive to be a leader in the field but instead is a late adopter of innovations. A defender adopts a conservative view of new product development and focuses on a narrow segment of the market to maintain its existing portfolio of activities and to defend its share of the public budget from attacks by voracious prospectors (Miles and Snow 1978).

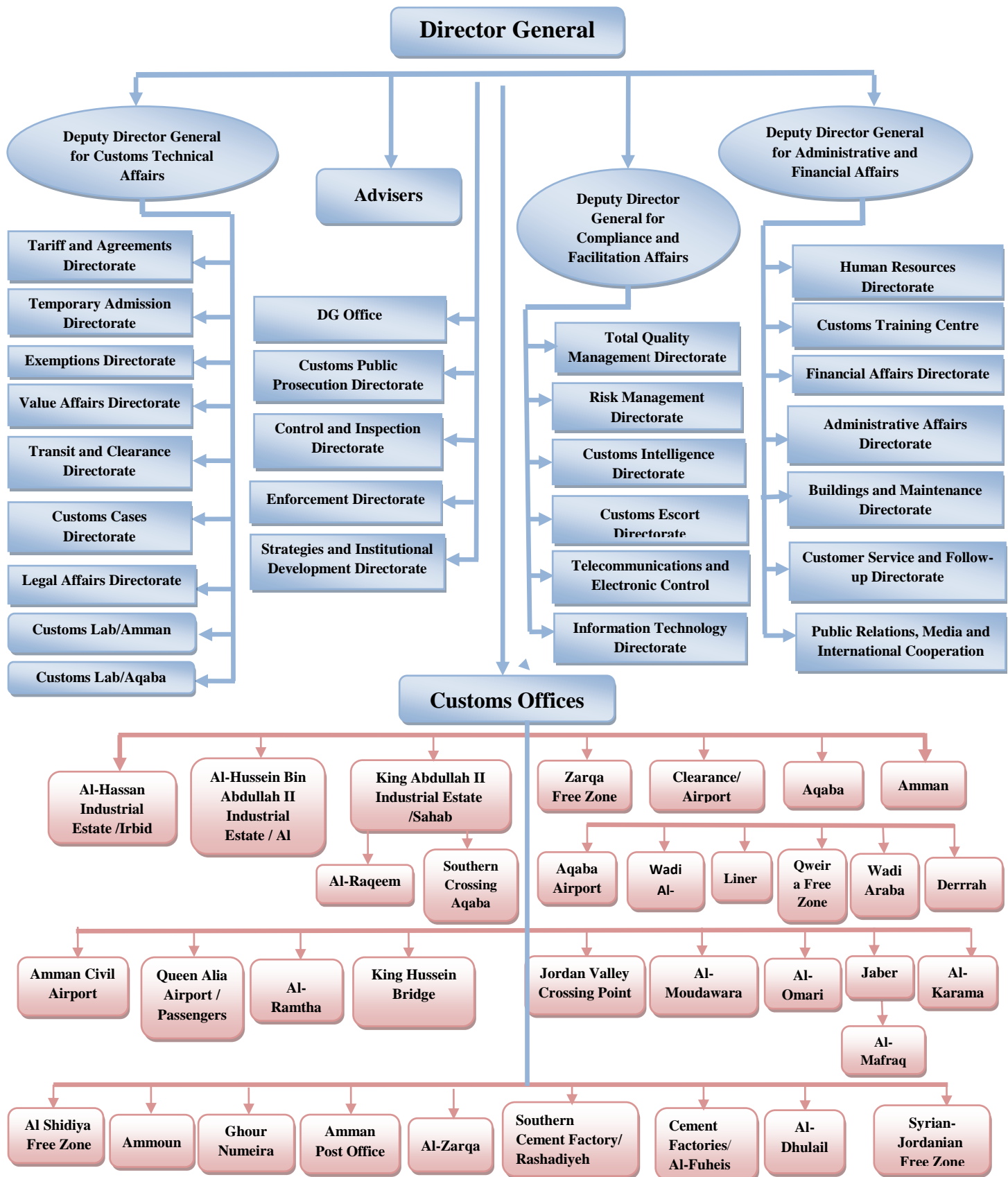
The relative success of different strategies is also likely to vary with environmental context (Boyne and Walker 2004). JCO has developed its strategy in terms of desired outcomes, taking into consideration national priorities. JCO members have utilized strategic thinking through the formulation of effective strategies that take into account the external influences on an organization from a national and global perspective; JCO examines policy issues and strategic planning with a long-term perspective leading to a compelling organizational vision; it determines objectives, sets priorities and builds upon strengths; and it anticipates potential threats or opportunities by using SWOT analysis (see Fairholm 2009). JCO also contributes significantly to the protection of national products and production sectors against intellectual property rights offences, and it helps provide support to legal trade. Furthermore, it helps encourage investment by simplifying customs procedures, focusing on the human element, improving the level of efficiency of the organizational employees and developing their abilities to grasp technological advances in customs work (SP 2008). However, the successful implementation of organizational strategy as well as strategic objectives requires some changes in the organizational structure.

6.4. Organizational Structure

The organizational structure of JCO (see Figure 6.28) is organized by the Administrative Regulation System (43) of 2000. According to this, the Director General has two deputies; the first deals with the Customs Technical Affairs while the other looks after the Administrative, Financial and Computer Affairs. The mission, vision, strategic objectives, etc are all highlighted in the organizational structure sketched below. JCO has been making great efforts to develop customs work and simplify its procedures. It constantly reviews its regulations and instructions to sustain recent developments in the customs environment with regard to the public policy orientation towards restructuring of public organizations that serve the work interests; a Royal Decree was therefore issued approving the Administrative Organization System (27) of 2011, which revised the earlier Administrative System (43) of 2000.

According to the administrative system (27) of 2011, the position of Deputy Director-General for Compliance and Facilitation Affairs was created in response to the developments on the domestic and international levels as well as Jordan's obligations arising from other international and bilateral agreements and donors. Accordingly, there was decentralization, flattening and downsizing in the organizational structure. As new directorates related to compliance and facilitation were linked to that position in the context of the organization's

effort to apply the WCO Security and facilitation of the international trade supply chain, of which JCO is a member, customs administrations thus embarked on achieving a comprehensive reform process in respect of their structure, operations, procedures and systems. This type of reform is certainly necessary in order to achieve the strategic objectives of customs effectively and efficiently. The subsequent changes in organizational structure have been discussed in more detail in section 6.7.1.

Figure (6-28) Organizational Structure of the JCO

(Source: JCO Annual Report 2011: 13)

6.5. Market and Stakeholders

JCO, as other customs administrations, is supposed to raise substantial revenue, provide local producers with protection, provide supply chain security, prevent the importation of prohibited or unsafe imports (such as illegal weapons or out-of-date medicines), and combat the trade of narcotics through the implementation of laws and regulations that are in line with WTO and WCO commitments. Customs administrations are expected to achieve these objectives both effectively (by achieving them) and efficiently (at the lowest possible cost to the budget and to the trading community) without compromising trade facilitation (Wulf and Sokol 2005). A key part of the strategic focus of JCO is to ensure that they have sufficient revenues. A significant revenue strategy concerns the prices of services for which charges are levied (Boyne and Walker 2004). As mentioned earlier, a public sector prospector is an outward-looking organization searching for new markets, scanning the environment, and developing new services. It is thus feasible that it will be changing its markets and services while seeking revenues. It is also expected to change its internal and external organization in order to align itself with the new environment (Miles and Snow 1978).

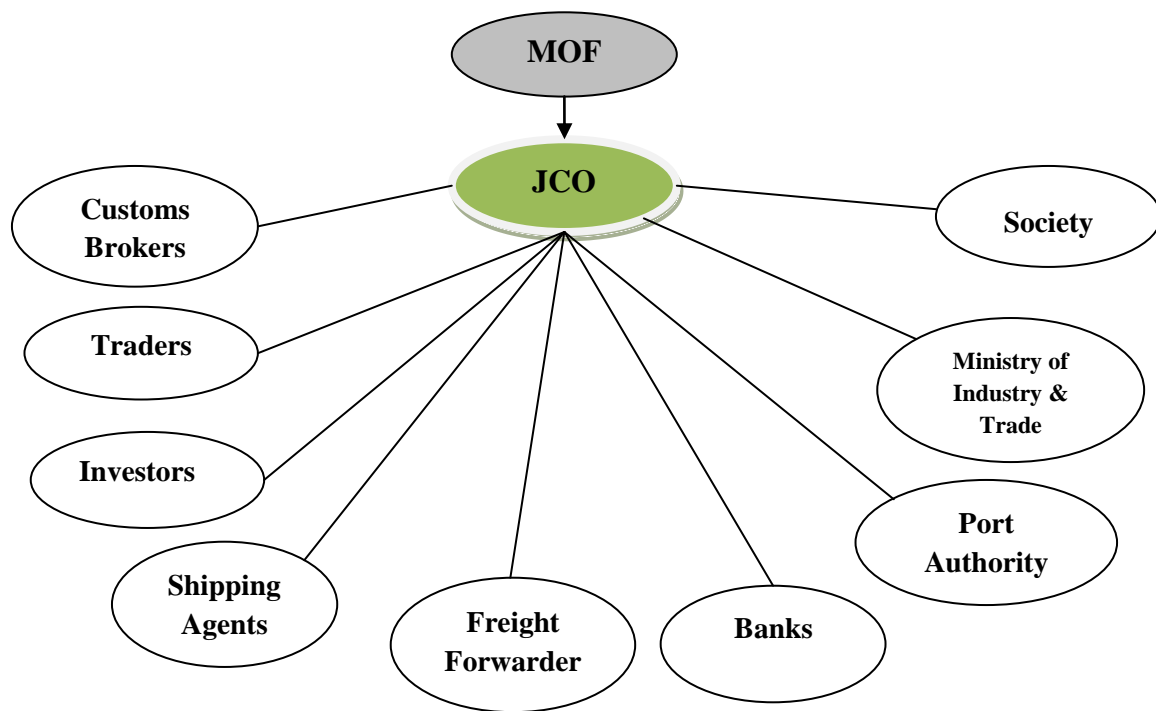
JCO is unique among public organizations in that it is neither a domestic organization nor an international organization. It is poised on the international borders, not only as an expression of a nation's sovereignty but also as the nation's guard against external threats to health, safety and the environment; it protects (for better or for worse) domestic industry and intellectual property rights, and collects revenue to support the government. At the same time, it must sustain an awareness of international issues and their possible impact on the nation, and it must be knowledgeable about national obligations to trade and transport treaties and conventions. In many ways, JCO also relates more closely to its counterparts in other countries than with other related organizations in Jordan. It often looks to customs administrations internationally and in neighboring countries for support and for ideas on how to develop operations or enforcement, as well as to exchange information on emerging threats (see Wulf and Sokol 2005).

JCO pays great attention to its stakeholders at local, regional and international levels. Customs operations in JCO comprise coherent and interlocking sets of processes. Changes in markets may take place through opportunities to provide existing services to new groups of stakeholders (Boyne and Walker 2004). Customs processes influence the interests of a variety of stakeholders as follows: customs staff responsible for financing government expenditure;

other public organizations responsible for enforcing regulations pertaining to safety and phytosanitary standards (e.g. agriculture and health organizations); security officers responsible for keeping out weapons; and traders who want fast and low-cost access to their goods. The adherence of each of these stakeholders to the customs reform determines its success. Any change of strategy needs to manage relations with each of the stakeholders carefully, bring them on board, and gain their support (Wulf and Sokol 2005). Besides, JCO works closely with all customs clearance agents¹⁰² who deal with the JCO offices on behalf of traders.

More explicitly, customs staff are responsible for the daily tasks of managing the trade processes. They receive the import declarations, verify the data provided, decide whether to physically inspect the goods, decide whether to determine the exporters' access to duty-free importer inputs, and determine the speed with which these operations are undertaken. Customs officers determine how clearance activities should be dealt with. Private sector stakeholders, especially traders, largely support the customs reforms because they are among the beneficiaries due to the more transparent and speedier processes at the custom offices. Therefore engaging them with the customs reform design process is crucial. Furthermore, the MOF is a key stakeholder in terms of its interest in revenue mobilization and dependency of customs. Customs procedures computerization brings better control over the documentary processing system and ensures that all transactions are recorded, thus improving the rate of collection (Wulf and Sokol 2005). However, there are reciprocal processes between individual stakeholders in the network as well as in their relationships with JCO. Figure (6.29) illustrates the network of key stakeholders with JCO.

¹⁰² Customs Clearance Agents: Every person [or agent] whose job, under the provisions of the Customs Law, is to prepare, sign and present customs declarations to the department and complete the necessary procedures related to the clearance of goods on behalf of others (Customs Law, No. 20, 1998).

Figure (6-29) The Network of Key Stakeholders with JCO

(Source: Author)

The focus of the MOF on raising more budget revenue has led to the rigorous control of trade movements, adding costs to both honest and potentially dishonest traders. Although reducing corruption and facilitating trade had been objectives of MOF-led reforms, in the past these goals were rarely translated into program details and were often set aside in the process of raising revenues. Hence these internally driven reforms frequently became stale and failed to introduce new ways of dealing with the old problems. External support for reforms is fundamental. Therefore, the trading community and civil society often lobby for the improvement of services. The trading community wants to cut its trading costs and increase the transparency of its operations, while civil society wants to eliminate the debilitating effects of corruption on social values and economic performance. At the same time, private sector pressure has frequently been crucial to fostering customs reforms and monitoring their progress. Politicians and government officials respond with rigorous policy programs to satisfy local pressure groups rather than pursuing administrative initiatives that are frequently suspected of being self-serving, that easily get lost in bureaucratic posturing, and that often lead to only marginal or cosmetic changes (Wulf and Sokol 2005).

However, there is much expertise worldwide for managing best customs services. International donors are enthusiastic about introducing advice because the improvement of

customs services has a high priority in their support programs. Capacity-building activities are regularly driven by the donors' own agendas for geopolitical rationales or for the sake of spending a budget to secure next year's allocation. Such support should be mobilized and, more significantly, coordinated by JCO. The trade logistics chain is dependent on the role of all participants (trade agencies and service providers), with a major role for the JCO. So, a reform process limited only to customs will generally be less effective than would be the case if other organizations and service providers who have a role in the customs procedures were to improve their performance too. For example, some organizations responsible for quality standards undertake separate inspections and take samples to ensure that imports comply with local quality standards (Wulf and Sokol 2005).

The JCO thus plays a key role in establishing good relations with investors and traders by simplifying procedures and utilizing technology and information systems to provide high-quality services to them (Ababneh 2008). Changes to ensure more effective coordination between the various public organizations charged with regulating cross-border trade and achieving meaningful rationalization of regulatory requirements required JCO attention at the national, regional and international levels. While different players are involved, it appears likely that JCO will be the only organization with the national and international infrastructure in place to achieve this (Wulf and Sokol 2005). JCO and other customs administrations have received a mandate from WCO to protect society, taking responsibility for preventing the cross-border movement of dangerous and unsafe goods (Wulf and Sokol 2005).

Clearance of goods is affected by various factors such as the quality of port facilities and the multitude of organizations and hand-offs involved in each international trade transaction. In general, JCO is seen as responsible for all delays and wrongdoing at the border, although other organizations are also involved (Wulf and Sokol 2005). According to its contribution to securing the International Supply Chain, JCO plays a key role in monitoring compliance and fulfilling its requirements to simplify procedures and introduce new initiatives. These initiatives include anti-smuggling techniques, Intellectual Property Rights Protection, Golden List, Customs Quality Management, Sound Management Accounting Systems, Customs Escort and Electronic Tracking, and Intelligence System. More recently, JCO has led local and regional organizations in the implementation of the Single Window System (AR 2010).

The Single Window System (SWS) has helped to unify the procedures between JCO and other public organizations¹⁰³ from one side, and regional organizations from the other side, through a speedier flow of goods across borders, and an improved competitive edge for Jordanian business owners. JCO began implementation of the SWS in 2008 with support from the USAID - FRP II. JCO relies on a single agency to take responsibility for the entire border management process through the adoption of ICT infrastructure that allows traders to discharge all of their regulatory responsibilities and transactions through SWS to the government. In the SWS, the information or transaction is routed to all concerned organizations, which simultaneously carry out the required agency-specific checks. Thus, the SWS has contributed to multi-day reductions in both import and export process time¹⁰⁴, and now covers 80% of all customs transactions in Jordan (USAID 2010d).

Furthermore, much has been gained by maintaining close communication with all stakeholders to ensure that the customs reforms respond to their initial objectives and do not become part of the routine customs work. Periodic and well-prepared assessment meetings that are open to all stakeholders have taken place in JCO to inform stakeholders of reform progress made, problems encountered, and measures proposed to address slippages and changed circumstances. On the one hand, the public-private partnership council¹⁰⁵ was established by JCO in 2000 for the purposes of holding discussions on all matters and to provide a proper environment for investment and trade facilitation. On the other hand, a periodic stakeholder survey¹⁰⁶ has been conducted to assess stakeholders' satisfaction with the results of the customs reforms. Figure (6.30) displays the results of stakeholders' satisfaction

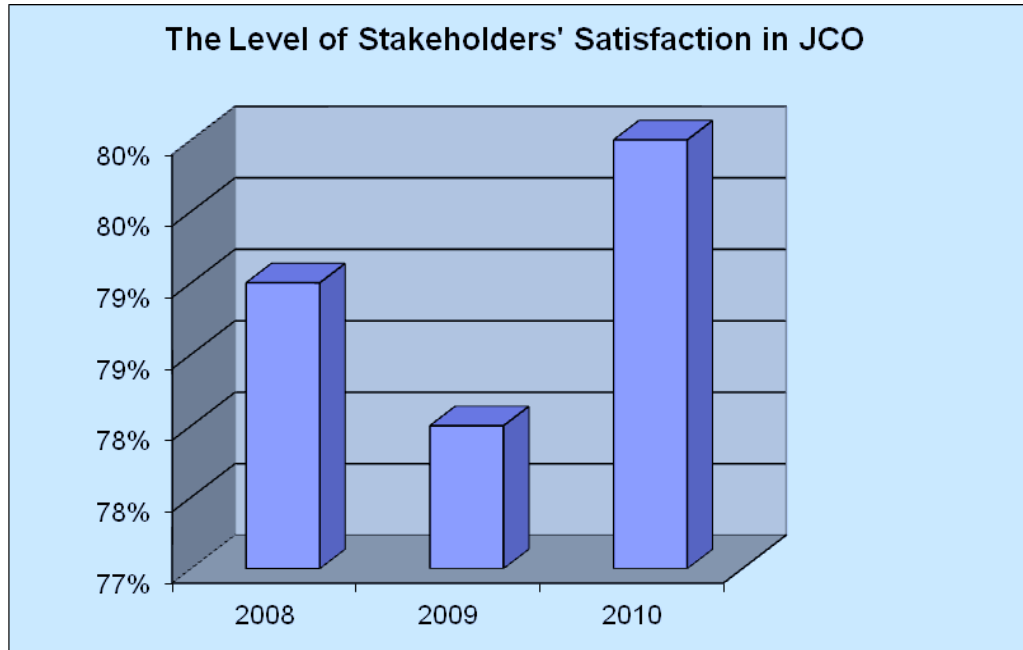
¹⁰³ These public organizations are the Ministry of Agriculture, Ministry of Environment, Jordan's Food and Drug Administration, Jordan's Standards and Metrology Organization, Jordan's Telecom, and Nuclear Regulatory Commission.

¹⁰⁴ According to World Bank Doing Business 2011 Report, Jordan's import duration dropped from 19 to 18 days, and export duration dropped from 17 to 14 days.

¹⁰⁵ This council comprises the JCO as chairman and other public and private organizations as members, including Jordanian Businessmen's Association, Jordanian Exporters Association, Jordan Chamber of Commerce, Jordan's Chamber of Industry, Free Zones Investors Commission, Syndicate of Clearance Companies and Transport of Goods, Association of Car Agents, Jordanian Society for Computers, and Jordanian Logistics Association (see JCO Annual Report, 2011).

level about customs processes. The level of the stakeholders' satisfaction about JCO's performance in 2010 was very high, i.e. over 80%.

Figure (6-30) The Results of Stakeholders' Satisfaction Level about Customs Processes



(Source: JCO Strategic plan 2011-2013:12)

6.6. Customs System Processes

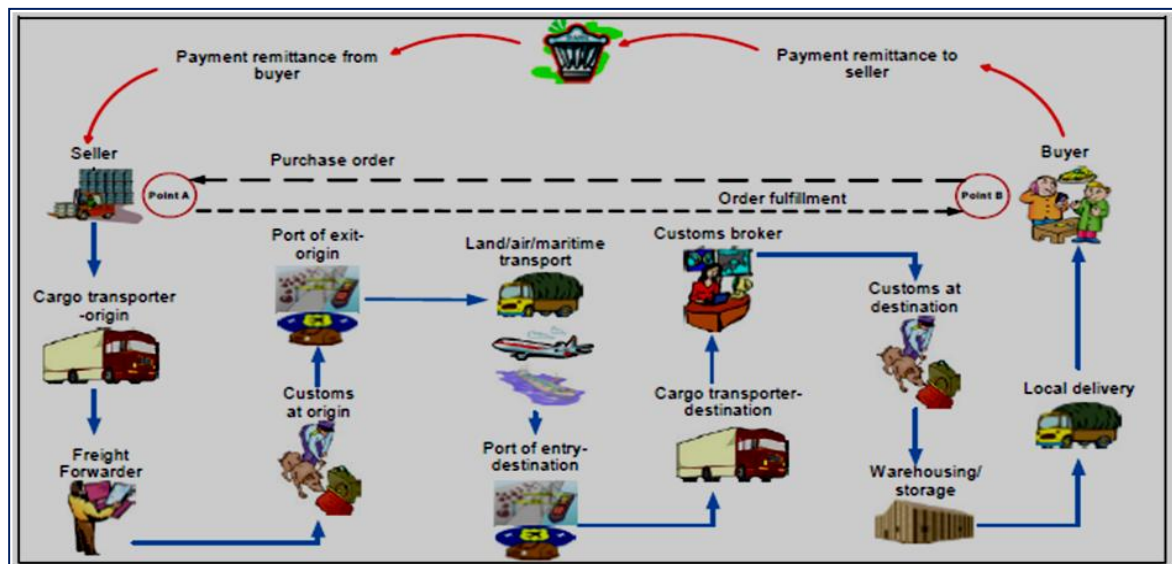
The customs system of JCO reinforces a wide range of laws along with customs law. JCO routinely works together with other organizations, sometimes sharing facilities at national borders. Consultations between JCO and other organizations are crucially important to eliminate duplicated and inconsistent legislation. To achieve trade facilitation, it is desirable for customs to enforce laws on border procedures or for customs to cooperate closely with other concerned organizations and agencies. Otherwise, border controls by multiple public organizations are likely to provide ineffective and inefficient border procedures and may sometimes lead to corruption (Wulf and Sokol 2005).

The supply chain of customs processes that imports undergo from the time of their arrival in a country to their release has been shown in 11 discrete steps (see figure 6.31 for more details). Although this articulation process may differ between countries, almost all the events occur in every country. The following steps are observed in the JCO for the release of goods from time of arrival: 1) Arrival of the goods; 2) Unloading of the goods; 3) Delivery to a customs area; 4) Lodgement of the declaration; 5) Payment of duties and duty discrepancies; 6) Acceptance of

the declaration; 7) Documentary control; 8) Physical inspection; 9) Control of other agencies such as standards or phytosanitary; 10) Goods released by customs; and 11) Actual removal from the port, airport or land border post premises (Wulf and Sokol 2005). In this regard, the clearance procedures, as part of the customs system, were consolidated by establishing compact clearance units covering the different stages of the procedures, from the beginning of the “manifest management” up to the release of the goods. Along with the Customs Law,

“The customs clearance agent [i.e. customs broker] shall be responsible before the persons to whom the goods are dispatched and before the Department [i.e. JCO] and the investing bodies of the stores and warehouses and the Free Zones for the actions of his employees to whom he must give an authorization prepared in accordance with the provisions of this Law and deposited with the Department. Declaration submitted to department specifies the distinctive features of declared goods, as well as the itemized quantities thereof in accordance with the provisions of this Law. The documents required by the law and which shall be attached to the customs declaration are deemed to be part of such declaration” (Article 167, Law no. 1998).

Figure (6-31) Supply Chain of Customs Processes



(Source: Zake 2011 :12)

However, customs processes are complex, require multiple permissions and signatures, are costly, and delay the clearance of goods; thus a total overhaul of the processes is called for. New processes need to be designed. Implementing them may require the import clearance organization to be revamped, responsibilities to be redesigned, staff to be reassigned, and new staff to be trained. It may also require offices and centers to be redesigned to accommodate the IT equipment and reduce the face-to-face contact between traders and their representatives and the customs staff. Outdated customs legislation typically included one or more of the following characteristics:

“No comprehensive body of customs-related legislation that establishes the clear competence of customs; non-core customs elements; inadequate provisions for complying with international commitments,

including WTO [and WCO] agreements; insufficient transparency and predictability reflected in the failure to provide basic information on matters such as rules, decisions, consultation mechanisms, and adequate appeals processes; complex or redundant customs formalities that delay clearance and create opportunities for unnecessary discretionary interventions; no provision for selective verification of cargo based on risk management, resulting in reliance on the 100 percent examination of consignments (containers), which hinders customs from deploying its limited resources in an efficient and effective manner; prohibition of advance lodgement of information or goods declaration or post-clearance audits; no provision for automation or electronic communication; ambiguous provisions that grant customs officers with excessive discretionary power; and inadequate authority for customs to achieve its enforcement and compliance goals” (Wulf and Sokol 2005:53).

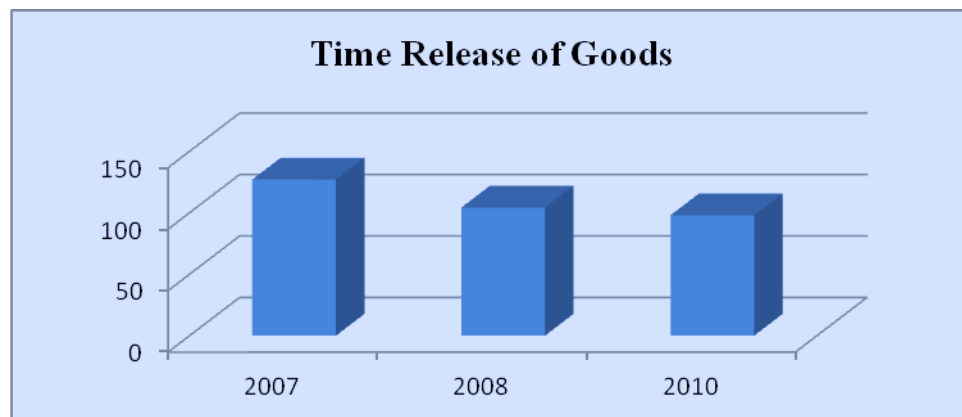
Outdated customs laws restrict social and economic development by acting as significant non-tariff trade barriers. They also prevent effective revenue collection, discourage foreign trade and investment, and potentially threaten social and national security. A solid and modern legal framework is the groundwork of effective customs operations to establish the competency of customs authorities to administer and enforce customs laws, develop administrative regulations, adjudicate or settle cases, and make decisions on customs administrative matters; to provide new customs systems and procedures; to encourage cooperation with other customs administration and with other public organizations; to provide partnership with the private sector (formal consultations, as an example); and to promote customs integrity and transparency (Wulf and Sokol 2005).

Significant legal changes were identified to render JCO in compliance with the ‘WCO Revised Kyoto Convention’, although they have been pending since late 2010. JCO thus needs to simplify its laws, regulations, administrative guidelines, and procedures, so that customs procedures can proceed without undue delay and red tape. This often involves changing or restructuring existing systems and procedures to reduce or eliminate pointless bureaucratic processes. In many cases, this requires elimination of non-tariff regulations, unnecessary steps, or duplication of administrative procedures. One of the most widely-used KPIs to measure customs effectiveness is the time taken by JCO to release goods. For many years, customs reforms were launched without proper assessment of their impact. However, the WCO has issued a methodology to measure release times so that the findings are comparable across countries. In this light, JCO has also responded positively to changing international trade practices which increasingly involve the use of E-commerce. The experience of the JCO is illustrative of the capacity of automation to drastically improve efficiency and eliminate opportunities for corruption. Prior to automation, processing customs declarations involved the submission of several documents logged in 20 separate registers, in more than 90 separate steps, and with more than 40 signatures. Automation, coupled with a

range of supporting reforms, has resulted in a significant reduction in clearance times (Wulf and Sokol 2005).

Accordingly, JCO has been increasingly relying on the intensive use of modern ICT (especially the UNCTAD-ASYCUDA system and the recently-launch E-customs package) to provide for seamless transmission of data to all interested stakeholders. In doing so, most customs offices use electronic submission of manifests before cargo arrival, on direct trader input of import and export declarations, and on E-payment of duties and taxes (Wulf and Sokol 2005). Hence, the measurement of time release is a worthwhile practice. Two different approaches can be considered to measure time release: an overall trade logistics perspective and a more customs-oriented perspective. From the overall trade logistics perspective, it is important to take into account the whole process. The measurement should consider the time duration from arrival of the goods at the border post until the point when they are physically released. This would measure the effectiveness of all operators involved in this transaction, including port authorities, warehouse management, control agencies, brokers, customs, the banking sector, and so forth (Wulf and Sokol 2005). From a customs-oriented perspective, the time-release study could give more details about the time taken for each of the 11 steps identified above, for which customs bear the sole responsibility. Such a study would suggest where bottlenecks exist and how they might be eased by actions and initiatives in which customs has primary authority (*ibid.*).

JCO uses the first approach to measure the time release of goods, taking into consideration the impact of streamlining procedures, expansion of applying technological projects and delegation of powers to customs offices. Figure (6.32) shows a continued reduction in the time release of goods conducted by JCO.

Figure (6-32) Time Release of Goods in JCO (in Days)

(Source: JCO Strategic plan 2011-2013:12)

In JCO, time measurement of the release of goods begins when the declaration is lodged in the ASYCUDA system. WCO (2002) provides a methodology to identify the bottlenecks in clearance procedures with concrete forms and to measure the effects of the introduction of new measures. The World Bank has supported this initiative to design time-release software. The ASYCUDA system was developed on different stages to provide time-release data, and to enhance the harmonization across countries by unifying the major procedures. In JCO, such data are provided for each port of entry or border entrance, and for normal and special systems; data are released monthly on the Internet. Besides this, time-release statistics are derived from a risk management system built in ASYCUDA software¹⁰⁷, which is based on selectivity criteria: the “Green,” “Yellow,” and “Red” channels. These results have highlighted the need for further customs processes simplification, and to increase staff compliance with new customs processes. However, the introduction of the ASYCUDA system as a process of trade facilitation has been discussed in section 6.7.3. Thus, having discussed the main aspects of JCO, in the following section the study focuses on the dynamics of organizational change in the JCO.

6.7. The Dynamics of Organizational Change

The survival and legitimacy of public organizations including JCO are highly dependent upon demands from society. Whether a public organization should undertake organizational change

¹⁰⁷ The channel designation is selectivity criteria based on a risk profile for the transaction. The channel is a treatment for the deemed level of risk. Risk = Probability of an occurrence x the consequence of that occurrence. Risk channel and time release statistics are only related by the time of processing: Green should be immediate release, yellow indicates document review, and red requires physical examination.

or not is purely a matter of striking a balance between public needs and the services provided by the organization. More explicitly, the maximization of efficiency and effectiveness is the imminent objective of such public organizations (Kuen 1989). Thus, organizational change can encompass all or some aspects of change within any form of organization in terms of new ways of organizing and working (Dawson 2003). The change is certainly not forbidden in government. It can take two possible forms: incremental change for the sake of improving efficiency and matching the environmental requirements, fine tuning, strategies designed for specific or fixed organizational problems, procedures modification, and business process reengineering; or a radical, drastic and large-scale change encompassing many aspects of the organization (Kuen 1989; Dawson 2003). The pressures for organizational change can be divided into external and internal sources. Externally, the organization has to adapt itself to the change of environmental demand such as technology advancement, change of social combination, government laws, national policies, international agreements, etc. Internally, the organization may need to deal with staff aspirations, new management accounting systems, information technology, leadership and organizational structure, etc. (Dawson 2003).

Customs organizations operate in a complex environment of constant change. They are required to respond to the promotion of economic development and to comply with regional, national and international obligations (Jansson 2008). To accommodate changes in these areas, it is important to determine 'a certain management type' to implement change processes (*ibid.*). The JCO presents an outstanding case of a complex organization where many factors were considered in order to effectively manage change. To realize the fact that such organizations have unique cultural orientations, members of JCO would eventually be assimilated into a particular belief, institution (thinking) and value system. Under the method of interaction, organizational change would take place in a gradual manner. Organizational change is necessary in implementing any customs reforms-related WTO and/or WCO agreements, including the initiative of trade facilitation and simplifying procedures. Such organizational reform programs support staff training in the new procedures, allow for adequate time to prepare the legal and regulatory environment, new organizational structure, and the adaptability of existing customs processes before the introduction of ICT systems, and call on external advisers and service providers when necessary (Wulf and Sokol 2005).

6.7.1. Organizational Restructuring

Further to what has been mentioned in section 6.2, JCO has changed its organizational structure from a centralized to more flexible, flat and decentralized structure. It also changed the emphasis of management style from individual tasks into team-working and from hierarchical power into expert power. The main aim of this change is to achieve the organizational goals and to adapt to new systems and international requirements. JCO thus requires new ways of allocating work and responsibilities among organizational members. While allocation of roles and responsibilities, teamwork, decentralization, delegation, and coordination are principal aspects of the structure, JCO has striven to develop customs system processes and streamline procedures to fulfill the WCO requirements in terms of trade facilitation and compliance management.

Conventionally, JCO is structured like an organization of the MOF and is fully accountable to the MOF for its operations and results. The overarching responsibility of customs is to raise fiscal revenue as prescribed by the budget. In doing so, it should ensure that customs procedures and policies are uniformly and consistently applied across the various points of entry and modes of transport. However, customs has somewhat greater autonomy than other public organizations or ministerial departments, generally as a result of its responsibilities as border guard, as well as its responsibility for dealing with non-compliant traders and smugglers. Given the nature of its responsibilities, the organizational structure of customs is decentralized, consisting of headquarters (HQ) and main directorates and distributed customs offices. HQ's responsibility is to develop operational policy, strategy and procedures - including the use of ICT. HQ monitors and manages the activities of the decentralized offices and is responsible for staff policy, including recruitment, compensation, training, and enforcement (see Castro and Walsh 2003).

Main directorates oversee the activities of the customs offices in terms of customs law, regulations and instructions, while customs offices decide on the level of verification, auditing, and executing of customs procedures that is required when processing a declaration and releasing goods, as well as the effectiveness and efficiency of this process (Castro and Walsh 2003). There are three deputies reporting to the Director General, each of whom is in charge of a number of specialized directorates and departments. The Deputy for Customs Affairs is responsible for technical and legal customs processes. The Deputy for Administrative and Financial Affairs supervises and manages the operational functions of the

customs administrative and financial system and facilitates all financial and administrative procedures. He also monitors the financial and administrative services in accordance with the customs regulations and financial system, and various aspects of staff development and budget allocations. The Deputy for Compliance and Facilitation Affairs is mostly involved in simplifying customs procedures and trade facilitation, in line with the WCO security and facilitation of the international trade supply chain. Hence, this position was established in 2011 in response to WCO requirements as well as international agreements. In this regard, the Manager of Strategies and Institutional Development argued that:

As a result of weakness in the previous administrative system for 2000, the Director-General of the JCO has established a new committee to study and implement the new administrative system, commensurate with the next phase of development requirements. The establishment of Deputy for Compliance and Facilitation as the third assistant aims to distribute duties and responsibilities between three assistants and ease the burden on the Director-General so that the focus is on strategic and national objectives as well as international relations. On the other hand, this position also aims to streamline customs procedures and trade facilitation, through facilitating and rewarding compliant traders, and monitoring and penalizing non-compliant traders. These amendments have changed the organizational structure from a vertical into a horizontal structure.

Along with the new administrative system of 2011, many changes emerged in the organizational structure. In future, customs directorates and offices will be established or cancelled by the decision of the Finance Minister, while the duties and responsibilities should be assigned by General Director (Law no. 20 of 1998). Besides, the tasks of the planning and coordination committee¹⁰⁸ have been changed. Accordingly, several interviewees at all levels expressed concern about whether organizational responsibilities and roles have been adequately defined. New policies and procedures manuals and handbooks provided broad and clear descriptions of the responsibilities of various customs positions, although some of them have appeared unsatisfactory regarding issues of coordination between different departments, excessive turnover of staff in customs, minimal progress in addressing corruption, promotion, and tasks overlapping.

Unfortunately, JCO, like many Customs Administrations, is exposed to corruption more than many other public organizations. This corruption has resulted from the broad authority delegated to customs staff. Customs administration should strive to combat such corruption as JCO has developed a code of conduct, an integrity/ethics program, transparent legislation, new accounting systems, and reward/recognition program regulation. Effective and efficient

¹⁰⁸ It became responsible for studying the following aspects: strategic plans and programs of JCO and following them up; the performance of directorates and departments and their achievement of objectives; annual plan for staff training programs; annual budget; draft customs laws and regulations; and organizational structure itself.

customs administration must contribute to facilitating legitimate trade, which is an engine of sustainable economic development. Accordingly, experiences nowadays suggest that many customs organizations in both developed and developing countries have recognized that productive interaction with business is essential for effective and efficient customs administration (Mikuriya 2012).

In addition to the traditional technical directorates in JCO (such as legal, procedures, tariffs and agreements, valuation, and IT), many modern customs administrations (such as TQM, customer services, risk management, ROB department, and strategies and institutional development) are giving JCO a responsibility for maintaining relations with the private sector and international community - to solicit concerns, explain the procedures, and deal with complaints when controversies arise. Stakeholders also require an independent appeals process to provide an avenue for appealing decisions that they believe are in error or are inconsistent with customs practices and integrated tariff systems. Only courageous and decisive leadership can inspire organizational change to overcome difficult situations or take quick action (Appelbaum *et al.* 1998). How leadership influences the decision-makers to implement new accounting systems will be discussed in the following section.

6.7.2. Transformational Leadership and Decentralization

Organizational change is a picture of the particular type of leadership that becomes critical during times of organizational change (Nadler and Tushman 1994). Kirkpatrick and Locke (1991) determine six attributes in a successful leader: drive (achievement, ambition, energy and initiative); leadership motivation (personalized or socialized); honesty and integrity; self-confidence; cognitive ability; and knowledge of the business. Two leadership dimensions have been introduced to explain the impact of organizational leaders on the technological change process: transactional and transformational leadership (Burns 1978; Appelbaum *et al.* 1998). On the one hand, transactional leadership perceives technological change as requiring mainly technical problem-solving skills, but it pays little attention to people's problem-solving (Beatty *et al.* 1992). It is dependent on giving people rewards to do what the leader wants (Senior and Swailes 2010). On the other hand, transformational leadership sees technological change as needing a combination of technical and human relations aspects. This dimension asserts that managers are given the role of translating top management's vision through exercising skills of path-finding (giving direction), problem-solving, and implementing to introduce technological change (Beatty *et al.* 1992; Appelbaum *et al.* 1998).

Transactional leaders can make minor changes to the mission; in contrast, transformational leaders are allowed to make large changes (radical) to the mission and culture that have a larger impact on organizational change (Senior and Swailes 2010). Organizational change can thus be a continuous and evolving process incorporating “approaches which view organizational change as an emergent phenomenon. Change is the result of the interplay of history, economics, politics, business sector characteristics” (Wilson 1992:10-11). The leadership of JCO introduced a good example in this sense, as the General Director has adopted a comprehensive customs reform and modernization program in translating National Agenda and Royal Initiatives. The program focused on simplifying procedures, trade facilitation and harmonizing systems, and addressed all customs roles and responsibilities involving all key stakeholders. Political support ensured continuity in the JCO leadership position in order to carry out and sustain these reforms. Courageous and stable leadership given an opportunity to see the implementation through to completion was confirmed as essential for success. In the absence of such leadership, the outcomes of customs reform will be more limited than the economy deserves (Wulf and Sokol 2005).

Internal and external changes in JCO are frequently simultaneous. The leadership of JCO focused on internal and external changes in the technical knowledge of staff, organizational culture, internal management, the approach to outsourcing, downsizing, reducing administrative costs, reforming accounting systems, decentralization, the delegation and empowerment of managers and employees, and improvements to service quality and work practices. This is clearly observed in the General Director’s (JCO leadership) meeting with the customs line managers’ no. 2, 2012, who asserted:

“There is a need to communicate with employees, by directing them to work as one team and involving them in periodic meetings, continual coordination and the decision-making process. The aim of these is to simplify customs procedures and upgrade customs services provided by the organization to the service recipients inside and outside the Kingdom. Also, we should strengthen cooperation frameworks and coordination between the JCO and other organizations, especially in border customs offices, by applying the principle of real partnership with the private sector and related organizations, and establishing partnership councils at the level of customs offices. All managers and staff must exercise the powers granted to them in the customs law, and apply decentralization in decision-making. JCO has to continue expanding the computerization of customs procedures to automate customs services to achieve E-customs system and to become an organization devoid of papers and reviewers. It should also continue to expand the operations of the electronic linking at both local and international levels in the field of trade facilitation, systems modernization and risks predictability”.

In 2011, the leadership of JCO launched a new banner, namely “E-Services: our Pathway to Excellence”, as a continuation of the comprehensive reform and modernization program. This program has achieved a better performance in the following core customs areas: leadership

and strategic planning; organizational and institutional structure; resources (human, financial, and physical); logistics capabilities; external cooperation and partnership; good governance; customs systems and procedures, including accounting systems; legal framework; change management and continuous improvement; and information technology. Thus, customs leadership helped to ensure that reform stays on the agenda of the various policy-makers inside and outside customs. In this regard, the Information Technology Manager argued that

“Through the implementation of customer services system, as one part of E-customs, there was a large need for top management support. While this system includes all employees in the network, it needs to change the organizational culture and thinking, and therefore requires top management change. This system has also changed customs procedures from manual to electronic procedures. The leadership support was represented by convincing the Director-General himself of the system, setting incentives for staff, getting liaison officers to train the staff, and having supervision inside the system itself. All of these contributed to the system’s success, in spite of the resistance faced during the application phase, which includes mental loyalty to the old work, lack of awareness, fear of censorship, and vested interests. Without the support of the leadership, the system was exposed to failure, while the Director-General was defending the system by himself in the event of any objection or resistance; at the same time, he used power of the system to pressure over resources in order to implement the same system. Hence, the leadership wants to change, desires information technology and encourages innovation”.

With the substantial workload and diverse emergencies that customs managers and staff often have to deal with, the E-customs package including customer services system and intelligence system has helped to save time and effort, simplifying the procedures. However, some officers recognized that this system has some drawbacks especially in resolving disputes about customs issues and the process of scanning reliable documents. Nevertheless, E-customs has become a taken-for-granted way of doing and thinking among the organizational members. The Director General must thus lead the organizational change as change rider. Besides, IT technical staff have become part of the reform management team, but without taking a leadership role except in special situations. Their role has been to transfer knowledge rather than implementing change; they benefit from the support of top customs management, and have direct access to management.

Consequently, organizational reforms need the leadership of customs’ management, as well as the support of customs staff and other stakeholders. While leadership by customs officials is vitally important, it is equally crucial to involve all stakeholders at the planning stage as well as at the implementation stage of the reforms initiatives. Stakeholders’ opinions need to be heard and the program needs to address their concerns (Wulf and Sokol 2005). Both the MOF, with its concern for revenue mobilization, and the private sector, with its concern for trade facilitation, must be integral partners in the customs reform process. Efforts to secure their support for the modernization processes are likely to prove beneficial. Any change

progress should be frequently communicated to the leader of JCO, to the MOF, and to the Cabinet. At the same time, top management of JCO should be considered by the government as significant national assets and instruments for trade facilitation, revenue collection, community protection and national security. Using verifiable KPIs to monitor the progress of the reform process is necessary, not only for evaluating progress, but also to adjust the reform measures to changing circumstances, without losing sight of the whole picture.

Successful leadership is perhaps the single most important element that influences the efficiency and effectiveness of customs systems, in terms of their organizational structure. This cannot be overstated as all aspects of customs management and customs clearance, together with the application and maintenance of modern information and communication technology (ICT), require customs staff to be highly qualified to operate the existing accounting systems efficiently and to practice the existing services for the introduction of new accounting processes and practices. In doing so, customs staff should be familiar with developments in international trade logistics and should adapt to shifts in emphasis with respect to customs' context. The following section explains prominent developments in JCO with respect to ICT and international customs practices.

6.7.3. Information and Communication Technology (ICT)

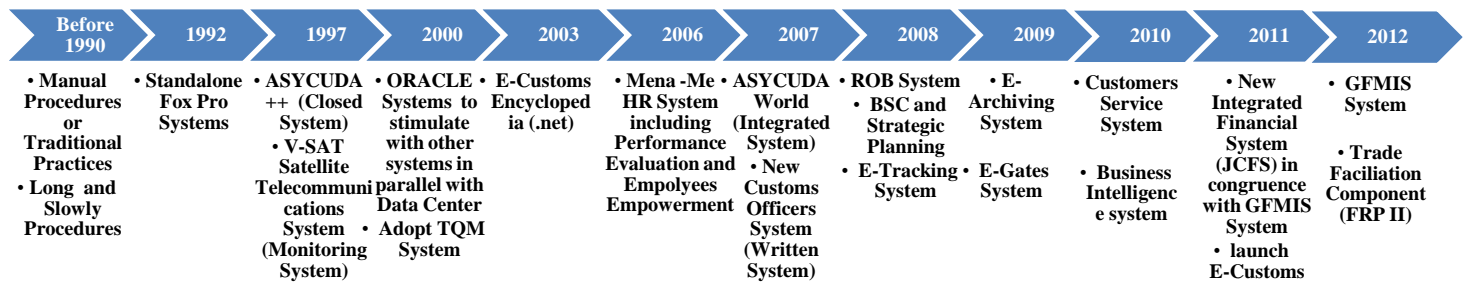
Before the 1990s, customs procedures and systems were very rudimentary, and most customs procedures depended largely on paperwork and book-keeping without the use of computers. Hence, they required more time and effort. The Head of the Programming Department explained as follows:

I lived in the period of using manual systems and transition process; the beginning of previous work was with books and notebooks, which were scattered in the office, such as exports and imports books. It was taking a long time for each employee in terms of opening books, recording and combining balances. Hence, the error probability of this work was high, and required the employee to return again to review and recount transactions and books statistically. Accordingly, JCO came to adopt the idea of the statistical system and computerized systems. We developed several statistical and computerized systems for statistical books of customs exemptions and tariffs, trade exports and imports. The customs work on the computer began in 1991 and was a computerized system depending on the ready-made programs such as Excel. In 1992, the programming process of new systems was computerized by using FoxPro language. In the meantime, JCO in cooperation with the University of Jordan developed three computerized systems by using this language in Amman Customs office for central control, accounting, and manifest (transactions reception). Thus, JCO began to computerize all other customs procedures from manual work to computerized systems in FoxPro language. This language was chosen for ease of handling, and it does not require modification of the existing hardware or more staff training. As a result, the transformation process has reduced the time and effort required from the employees and the process has become faster and more accurate.

He also added:

The customs work has continued by using stand-alone FoxPro systems including accounting systems between 1992 and 2000, with the exception of some developments in this period, such as the Temporary Admission system, ASYCUDA++ system, and Monitoring system. However, these systems have some flaws, including being closed systems and stand-alone and fragmented systems, having old language and slow processing, and the impossibility of linking with other languages. JCO thus expanded the recruitment of IT staff, training them and investing in them, and started to take advantage of this investment by developing new systems itself. In the 2000s, the transition process started from FoxPro into Java language, and from ready-made programs and stand-alone systems into Oracle database and integrated systems. Oracle database has enabled links between subsidiary systems in customs offices and the central system and server at headquarter. It also equipped to enable the link with Windows and the Internet. As such, JCO has embarked on developing central integrated systems instead of closed stand-alone systems. Thus, the customs work has completely changed to automated systems including accounting systems

However, with the passage of time and involvement of information technology, JCO systems have been changed. This change has taken place in four stages (as set out in Figure 6.33). In the first stage, the work was done manually. The second stage focused on stand-alone FoxPro systems (fragmented systems). The third stage began to recognize the significant advantages of using technology-based solutions to improve operational efficiency by using Oracle database. IT staff designed and developed their own customs computer systems, tailored to meet national needs. In the final stage, such systems have been developed, simplified, and in some respects standardized in line with international best practices, which were adjusted over time to capitalize on changes in information and communications technologies. As a result, most customs offices in JCO have computer systems that reflect modern customs management practices such as accounting systems, an intelligence-led and risk management approach, E-Customs Encyclopedia, E-archiving system, E-gates system, E-tracking system, sophisticated post-clearance audit system, etc.

Figure (6-33) The Processes of Organizational Change in ICT

(Source: Author)

JCO is increasingly required to integrate its systems and procedures with the sophisticated international logistics network. The international customs community requires JCO to use applied ICT as a catalyst for improving organizational and operational efficiency and effectiveness. As a result, many modernization programs in the JCO over the last decade have been adopted with significant computerization components, such as ASYCUDA World, harmonized tariff system, Integrated Temporary Admission System (ITAS), goods declaration processing, revenue estimation (e.g. E-views), revenue collection, risk management, and management reporting.

The mission of JCO has changed “To be amongst the pioneers of the world providing high-quality Customs services to stakeholders.” Customs management has demonstrated its obligation to modernization and adjusting strategies to achieve this mission. To meet its mission, customs administration has effectively integrated modern practices and processes with ICT-driven customs management systems. JCO has identified realistic and measurable targets and objectives that are customized to its own specific circumstances as in its strategic plan. Its strategic plan for 2008-2010 was achieved and its strategic plan for 2011-2013 has been prepared and is taking place. USAID has supported JCO modernization programs since 2003 - through AMIR I¹⁰⁹, AMIR II, CAMP¹¹⁰, and through the Customs Component of the FRP II. Given the significance of trade to Jordan’s economic growth and development, FRP II and its customs component were very important in this regard. While JCO has embarked, with

¹⁰⁹ AMIR program is Achievement of Market-Friendly Initiatives and Results Program

¹¹⁰ CAMP is Customs Administration and Modernization Program

USAID's support, on a comprehensive reform and modernization strategy, related processes require regular review and adjustment. In some areas JCO has made major progress while in others progress has been slower than anticipated.

Over the last decade the worldwide liberalization of trade, together with rapid technological advances, has led to a rapid expansion of international trade and to intensive competition in export markets. These developments in trade and industry, including the need for rapid delivery of goods, JIT inventory, and the use of technology, have forced JCO to adopt modern customs control and trade facilitation strategies. Such strategies were based on risk management and assessment, selective checking, post-importation audit, and extensive use of information technology. JCO thus concentrates more on overall assessment of the traders' level¹¹¹ of compliance than on verification of individual transactions. The author's experiencing of working in JCO revealed that such strategies not only significantly facilitate trade but are also far more effective in protecting revenue than the old standalone systems.

Accordingly, JCO has moved from physical controls to selective and periodic compliance-checking through post-importation accounts-based audits. Effective use of ICT can significantly contribute to such controls while facilitating trade. A number of functions and activities have so far been computerized, including the following: E-tracking of goods imported for inward processing and transit trade; exchange of information and data between customs offices of entry and exit for goods under temporary admission and in transit by using customs intelligence system and ITAS system; and the control of quantities and values of exempt imports under projects involving multiple shipments or different customs offices by using risk management, valuation and tariff systems. All of these new IT systems were completed by adopting the ASYCUDA system.

JCO started to implement ASYCUDA ++ system in 1997 in different phases. Phase I included installation and implementation of the system in Customs Headquarter and in two pilot sites, Amman Customs and the International Airport Offices; it was completed in 2000. JCO thus implemented the system in support of UNDP¹¹². A project evaluation was carried out in 1999

¹¹¹ For traders (companies) judged to embody a low risk, customs shrinks its level of regulatory inspection and depends more on the company's self-assessment of customs compliance. Thus, low-risk traders can run under less onerous reporting and procedural arrangements, which largely facilitates their import and export trade.

¹¹² United Nations Development Programme

by three consultants representing the JCO, UNDP and UNCTAD¹¹³. Findings and recommendations were taken into account for the system diffusion for Phase II. Phase II was implemented by the end of 2002. The main objectives were to install the system in eight additional customs offices and to upgrade it by implementing new practices and procedures. However, this system faced strong resistance by the JCO employees because it led to a radical change in organizational culture and in the whole existing customs system. The Advisor to the General Director¹¹⁴ for Trade Facilitation stated:

ASYCUDA++ helped to unify existing customs transactions and systems including customs declaration, tariff, valuation, accounting and risk management instead of stand-alone self-assessments. The success of this system needed supportive change management and change in existing organizational culture, in order to overcome the resistance by proponents of outdated practices and traditional employees. This resistance was due to lack of knowledge, vested interests, and mental allegiance to old ways of thinking and doing. To avoid this, JCO introduced an awareness campaign including staff training and rewards, staff turnover, improving the customs environment and persuasive discussions with overt resisters.

JCO has been using the ASYCUDA++ system since 1999. In addition JCO has also developed many other ICT applications supporting its business activities and has thus increased its dependency on ICT to conduct the business of customs. However, the inherent inability of ASYCUDA++ to communicate with other ICT systems is only exacerbated by the ever greater reliance on ICT to conduct the business of customs, the increased need to provide services online and collaborate and exchange data with customs offices and the private sector, other public organizations and customs organizations, and by the pressure to integrate the customs ICT applications in all customs offices in JCO. JCO decided to upgrade the existing ASYCUDA ++ system (stand-alone system) to the web-enabled ASYCUDA World system (integrated online system) in 2007.

ASYCUDA World was implemented with support from UNCTD under the USAID AMIR program. It has been widely used in JCO and provides outcomes in terms of fast provision of customs data, automated customs processes, increased coverage of revenue collection, increased accuracy, shorter time for processing of declarations, electronic insertion of declarations by brokers, development of human resources, and the move towards E-Government and E-commerce. The transition to the ASYCUDA World system has reinforced communications between customs headquarter, customs offices and other related organizations on the one hand and ensured minimal disturbance by the JCO of other public

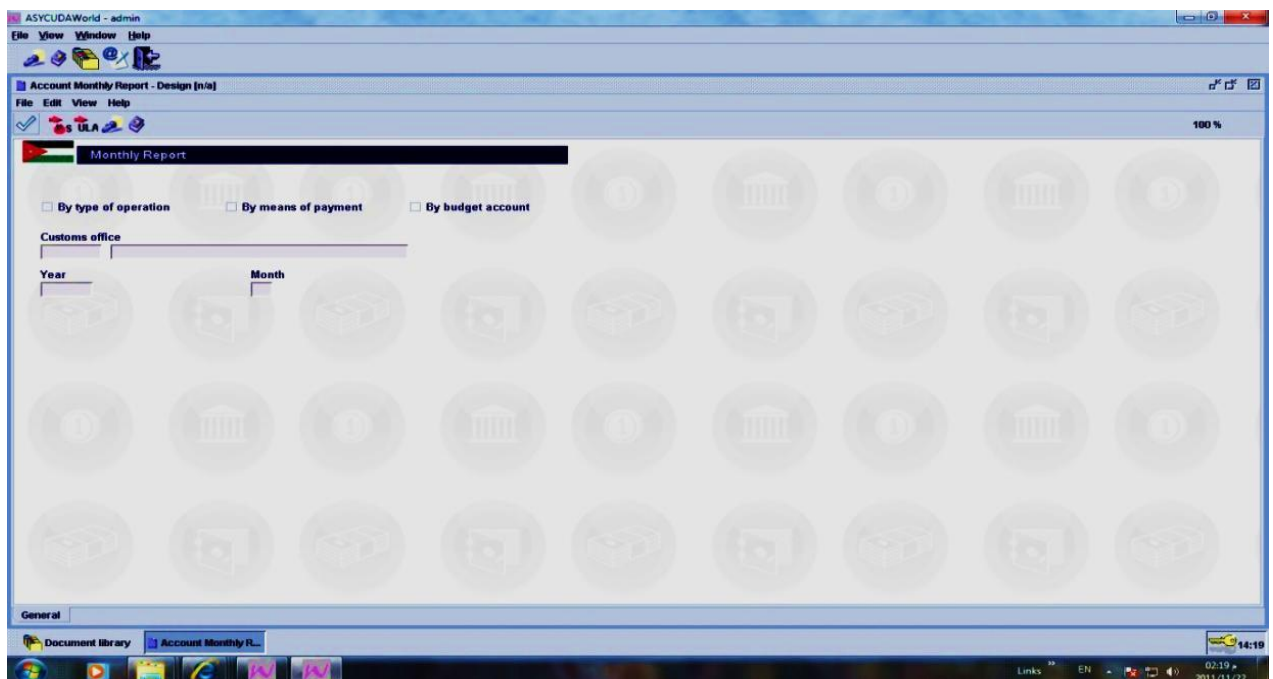
¹¹³ United Nations Conference on Trade and Development

¹¹⁴ He was ASYCUDA Project Manager.

organizations and the private sector on the other. In this regard, the Head of ASYCUDA Department argued that:

The diffusion of ASYCUDA World inside JCO helped to facilitate the submission of manifest, customs clearance, customs release, risk management, bonded and warehouses inventory management, transit procedures, accounting system, and Single Window, as well as all customs procedures and working practices. JCO adopted this system from UNCTAD, and was implemented by a collective effort between JCO and a team from UNCTAD to adapt the system to the Jordanian context. This system has specific options as it links with the Internet and it is flexible to modify or adaptability to add new practices in accordance with international trade developments. The implementation of this system was supported by the Jordanian government and JCO leadership; it offers different types of reports (see figure 6.34 as one example) and manuals for all employees and stakeholders at organizational, local and international levels. The ultimate goal of JCO by implementing this system was to meet international requirements, gain legitimacy and provide high-quality services. IT Directorate thus seeks to coordinate, monitor and provide necessary authorization for all software development in customs offices and other related organizations in order to avoid duplication of effort and adopt general standards and practices.

Figure (6-34) Monthly Accounting Report on ASYCUDA System



(Source: Direct Observation, ASYCUDA System)

Accordingly, JCO has taken great strides in making use of ICT to enhance service delivery, operational efficiency and trade facilitation. As mentioned by several interviewees,

ASYCUDA was disseminated to all customs offices and practically all components are working. The customs integrated tariff system (CITS) provides traders with an integrated customs tariff and a compilation of trade regulations that traders must follow. Many other E-customs services have been made available to inform traders, respond to queries, and otherwise accelerate communication between JCO and the trading community. An internet and intranet customs site provides valuable accounting services. E-tracking system is being used for about 80% of transit trucks and most customs offices have an E-Gate system that permits prompt release of cargo when formalities are completed; this provides better security against illegal release of cargo. E-payment and E-linking with banking and neighbours' systems have been launched throughout ASYCUDA system. In the accounting range, ICT helped to create a solid platform to adapt to the new budgeting systems (ROB, JCFS and GFMIS systems).

Figure (6.35) provides an example of the role of ICT in developing accounting knowledge, i.e. a cash online payment system in ASYCUDA system.

Figure (6-35) Cash Online Payment in ASYCUDA System

The screenshot displays the 'Cash Declaration Payment Form' within the ASYCUDAWorld - admin application. The form is divided into several sections:

- Header:** Includes 'Bar Code', 'Declarant Code', and 'Company Code' fields.
- Customs Office:** A dropdown menu for selecting the customs office.
- Receipt Identification:** Fields for 'Receipt Identification' and 'Date'.
- Amount Collected:** A field showing '0.00'.
- Declarations Table:** A table with four columns: 'Declarant Reference', 'Registration Reference', 'Model', and 'Assessed Amount'. The table contains five rows of data, all with '0.00' in the 'Assessed Amount' column.
- Total Amount for Declarations:** A field showing '0.00'.
- Other Duties, Fees and Taxes:** A section for additional charges.
- General Tab:** A tab labeled 'General' is selected at the bottom.

The interface includes a standard Windows-style menu bar (File, View, Window, Help) and a taskbar at the bottom showing the system clock as 02:07 on 2011/11/22.

(Source: Direct Observation, ASYCUDA System)

Furthermore, ASYCUDA, as well as other ICT systems, has been fully integrated into the annual training plans of JCO. This was reflected in the training courses conducted at the Customs Training Centre in Amman. The content and quality of training is relevant to customs work. Customs staff, brokers and business community staff regularly participate in training courses. Formal training courses are administered and managed by the Centre, and are delivered mainly by the ASYCUDA Project Team. ICT systems along with training courses have helped to publish technological culture and accounting knowledge inside the JCO environment, and to build institutional capacity. All managers with responsibility for ASYCUDA have changed and/or refined existing accounting and control practices to ensure the standard application and monitoring of necessary checks to safeguard national revenues and facilitate trade.

6.7.4. Organizational Culture

Organizational culture is considered a set of assumptions, beliefs, values, institutions, structures, norms, rules, traditions and artefacts (Schein 2010). Culture is thus “how things are done around here” (Martin 2002:3) and it forms the behavior of its members in explicit and implicit ways (Smollan and Sayers 2009). Kroeber and Kluckhohn (1952:181) offer this definition of culture :

“Culture consists in patterned ways of thinking, feeling and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiment in artefacts; the essential core of culture of traditional (i.e. historically derived and selected) ideas and especially their attached values”.

Organizational culture is substantially about values that have been termed “embedded codes” (Branson 2008:382). Culture in this sense is a system of collectively held values (Hofstede 1981). Values may develop or be deliberately established and articulated in the mission statement and website of the organization, and included in organizational strategy and reports. In this way, they are overt guides to behavior but the messages and the mechanisms may be more subtle. They frequently contain change language, and JCO has created its core values in the strategic plan of 2008-2010 to include integrity, professionalism, discipline and accountability, creativity and learning, justice, focusing on results and service receivers, pride, culture of distinction, and being an informed organization. It has further changed some of these values, as indicated in the strategic plan of 2011-2013, in response to organizational objectives and mission to contain transparency, proficiency, pride and honour, and teamwork. JCO thus reviews its values depending on a periodic review of its strategic plans and national objectives. Hence, ‘values alignment is the bedrock of successful organizational change’; this process needs to be carefully managed but nevertheless cannot always work (Branson 2008:377).

JCO strengthens and consolidates its values among employees using several learning techniques to ensure achievement of its vision and mission. These values are inextricably linked and complement each other, and they have an equal priority in term of the organization’s responsibilities and customs work. Organizational culture is thus “what a group learns over a period of time as that group solves its problems of survival in an external environment and its problems of internal integration”; hence “such learning is simultaneously a behavioural, cognitive, and an emotional process” (Schein 1990:111). Organizational culture can be shaped by explicit management intervention but is at the same time influenced

by various employee (and managerial) dialogues and subcultures, so there is often a divide between adopted and recognized values (Kabanoff *et al.* 1995). Thereafter, organizational actors create, but are also constrained by, organizational meaning, while the social processes that enact the values “endow them with meaning” (Rosen 1991:6).

Organizational values are regarded as a major component of organizational culture and employed as a bonding mechanism between employees. Values serve as a critical component of the organization’s perspective on strategic direction, mission objectives and visioning (Williams 2002). The core values of JCO that contributed to organizational objectives were integrated with the strategic planning process. Both organizational strategy and values are viewed as defining an organization’s objectives in an integrated manner that permits excellence and creativity (Williams 2002). In JCO, strategic planning thinking has begun to include a focus on employee contributions, mainly creative knowledge, ICT diffusion, expertise, teamwork, and interpersonal skills (*ibid.*). JCO has thus sought guidance on how to integrate its strategy and HR capacities, including IT and accounting staff. A culture of innovation (technology) in JCO has been facilitated by encouraging devolution through the creation of the new HR system, namely Mena-HR system, to reinforce the professionalism and proficiency of customs staff. The following figure (6.36) is an example that describes the HR process in JCO.

Figure (6-36) Mena-HR system in JCO

The screenshot displays the Mena-HR system interface. At the top, there are two tabs: "Modify User Permissions" and "Change Password". Below these, the "User Login" section includes fields for "User Name - English" (containing "1"), "User Name - Arabic" (containing "المستخدم الأول"), "E-Mail" (containing "NoEmail@admin.com"), and "User Group" (a dropdown menu set to "Choose"). There are also checkboxes for "Admin", "Hold", "Customized List", "Show Financial Information In Report Generator", and "Mandatory Fields Setup".

The main section is titled "Human Resources Management System" and "User Authorities Distribution". It contains a table with the following columns: "Page Name", "New", "Save", "Delete", "Post", "Un-Post", "Print", "Access", and "Details". The table lists various system modules with checkboxes indicating user permissions.

Page Name	New	Save	Delete	Post	Un-Post	Print	Access	Details
Administrative Setup	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Organizational Setup	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
General Settings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employees Setup	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employees Pages	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Leave Management	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Transactions Pages	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Provident Fund Module	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Personnel Reports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial Reports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Time Attendance Module	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(Source: Mena-HR Manual: 20)

A necessary relationship between organizational culture, including its values component, and organizational strategy requires that the total identity of the JCO, including its intended path, be completely recognized. Hence, on-going change in society, government, local and international markets, customers and competition is forcing JCO to redefine its settings. Figure (6.37) explains new organizational settings in terms of organizational set-up, administration, employees, hierarchy and financial set-up of JCO.

Figure (6-37) New Organizational Settings in the JCO



(Source: Mena-HR Manual: 34)

Cultural change is thus significant in terms of assessing whether the organizational culture has become (mis)aligned in terms of subgroup cultures' practices, or whether there are problems or challenges to be addressed, which could undermine the cultural ethos and underlying assumptions of the organization (O'Donnell and Boyle 2008). JCO has considered training, in terms of culture awareness, as an appropriate method to learn from leaders and managers about the prevalent cultural norms and assumptions. JCO has also strongly emphasized non-monetary rewards such as honors and appreciation programs besides its monetary rewards. It has also linked these rewards with performance evaluation. In doing so, it has promoted and planted a culture of excellence throughout the organization. The HR Manager of JCO asserted that

JCO is Jordan's image in both border offices and the local and international trade community, so it seeks to reflect high-quality recognition in terms of customs staff and procedures. The role of HR management is to pay great attention to the employees and their development, while the employee is human capital and his/her cultural and intellectual accumulation contributes to the achievement of the mission and objectives

of the organization. JCO provides different types of rewards to the employees. Some of them are linked with performance evaluation and others with the employee's achievement of additional work and creativity. At the same time, there is a sanctions system for those who breach Customs Law and the Customs Officers' system. This contributes to enforce ethics, integrity, and behaviors of employees towards improving their performance and knowledge.

The Manager of Customs Training Centre further added:

Training is a key element in the organizational culture, regardless of whether its structure is descriptive or practical. The goal of training is to exchange information and knowledge among employees; through training this information can be structured correctly and beneficially. Restructured information can give the employees a new work culture and ways of thinking, which means that you have arranged the employee's thoughts and added new skills to his/her knowledge. This in turn gives the employee a motive to work; hence it will have a payoff in terms of results and good accomplishment in the volume of transactions. It will also impact on revenues, regardless of the form or source of revenue, be either customs duties or sales or for other organizations; eventually it becomes revenue and has a positive impact on the economy.

In the light of the above interview contributions, it appears that the key challenge to customs leadership is to foster entrepreneurship, creativity and advanced technology activity, and a leader is considered to be visionary, innovative and task-oriented. Furthermore, a strong commitment by the leader to experimentation and innovation in the development of new knowledge, culture and services seems to be critical in keeping the JCO focused on its objectives and programs. Customs leadership has attempted to use cultural influence as a technique to influence the organization. Besides, an administrative system derived from the organizational culture has helped to develop strategies and procedures that determine the organization's success. Any system's culture is a general perception shared by its members. Culture is thus one of the most constant and influential powers, and plays a decisive role in operationalizing the organization (Irtaimah 2011).

There is a direct relationship between the organization's performance and culture (Irtaimah 2011). A performance evaluation and administration system focuses on the day-to-day management of people and their performance. Performance evaluation in JCO takes place on a regular basis four times a year, or every three months, with standard performance criteria and slides. This system is designed to optimize staff performance in the long term. Customs administration is held accountable for the performance of staff and actively handles performance issues. Customs employees are more likely to act with integrity when morale is high, if HR management practices are viewed as being fair (justice), and if there are reasonable opportunities for career development and progression for all well-performing officials. Customs employees at all levels should be actively involved in the anti-corruption program and should be encouraged to accept an appropriate level of responsibility for the

integrity of their administration. Integrity must be regarded as everyone's responsibility and obligation (Wulf and Sokol 2005).

Accordingly, organizational culture is portrayed as a series of rules and techniques developed by society and organizations to deal with the widespread problems they have to face. The adhocracy organizational culture highlights the significance of new products, creative solutions to problems, cutting-edge technologies, and strategic growth in new market niches as the dominant effective criteria (Hooijberg and Petrock 1993). However, the underlying operational phenomenon is innovation and new ideas, which create new markets and increase customers and new opportunities (Cameron and Quinn 2005). As a result, culture-changing strategies, TQM, JIT, Risk Management and BSC were developed in JCO to involve the employees in designing and participating in the development of strategy to improve quality (McKee 2010). In search of excellence, JCO has harvested many rewards, and the most important is the KAA award for performance excellence.

One key element of the contemporary culture and value in JCO is the MFR approach. While traditional organizational culture in the public sector is expected to impede public service modernization, including the customs service, unless they themselves become better aligned with the modern role of government as an engine of economic growth (O'Donnell and Boyle 2008). Organizational change proponents have explained the attributes of traditional public sector culture, focusing on its authorities and controls, the fact that is rules-driven, its bureaucratic nature, its inefficient use of resources, and its lack of accountability for results; they suggested a new paradigm (see table 6.11), one more responsive to public needs and expectations (see O'Donnell and Boyle 2008). Reinventing government orientation suggests that public organizations should be more mission-driven, customer-focused, result-oriented, and decentralized to meet the needs of citizens or stakeholders (see Osborne and Gaebler 1992; Ellingson and Wambsganss 2001).

Table (6-11) Transition Process in Public Sector Paradigm

Old Paradigm	New Paradigm
Government is the source of authority and control	Government provides services and solutions to common problems
Government is rules-driven and resistant to changes	Government is results-oriented and changes to meet new needs
Public servants are focused on themselves and their situations	Public servants are focused on meeting the needs of the citizens and stakeholders

(Source: O'Donnell and Boyle, 2008:11)

In a nutshell, an overall management culture in the JCO is very results-oriented and this is underpinned by dynamics of management accounting change including the four main components in JCO accounting systems: implementation of new systems, change processes, obligation and facilitation, and customer services.

6.8. The Dynamics of Management Accounting Change

Besides facilitating trade, JCO is a revenue-based organization, aiming to support the treasury with financial resources; its core tasks are focused on the accounting rules and routines as well as technical tasks. The vast majority of the employees has accounting and finance backgrounds. According to the JCO report of 2007, 520 employees were accounting specialists and a further 340 employees specialized in financial management. They are distributed between headquarter and customs offices over all areas of the Kingdom; they perform accounting tasks together with customs procedures. Accounting in JCO is thus subject to government regulations, especially the 'State Financial System'. This is a written system that includes all financial regulations and instructions with which all public organizations must comply in their practical procedures. But it still includes outdated practices and needs to change in accordance with the new environmental setting. Like other public organizations, JCO accounting procedures are also dominated by this system.

Accordingly, most financial accounting practices were traditional and rudimentary, especially before the 1990s; some of them were progressively computerized using standalone FoxPro programs-based old programming language. As discussed by several interviewees, each FoxPro program is stand-alone and fragmented; they have separate paths, require long accounting procedures and multiple signatures, and have to handle bookkeeping in parallel

with accounting programs. Hence, there was a gap between financial accounting systems and advanced ICT systems, as mentioned in previous sections. The reasons for this are the obsolescence of the 'State Financial System' which lacked electronic procedures, the omission of financial accounting role by some former leaders, and acceptance of the status quo. Moreover, financial accounting tasks were performed in some areas by non-accountants. Accordingly, the inadequacy of current accounting systems and knowledge retarded the replacement of traditional accounting systems, designed for financial reporting and customs purposes, with modern information and accounting systems (see Johnson and Kaplan 1987).

Before 2007, JCO lacked a management accounting (or budgeting) department but had an expenditures (or costing) department and revenues collection department as well as other financial departments, which had been endeavoring to satisfy the financial accounting objectives. This supports the allegation by Johnson and Kaplan (1987) that one of the reasons why management accounting had lost its relevance was that management accounting practices follow, and become subservient to, financial accounting practices. Thus, management accounting was subservient to financial accounting until the end of the 2007, although there were some practices that can be considered management accounting practices (e.g. TQM), but they were managed by 'hybrid' accountants (see Burns and Baldvinsdottir 2005). Therefore, management accounting is not a process that is centralized in the hands of accountants. It is something that is done at all levels in the organization. It is the accounting that managers largely do for themselves, with the assistance and guidance of the finance directorate, but is fundamentally a decentralized process (see Scapens *et al.* 1996). For instance, information on TQM, risk management and internal management reports are produced by staff from relevant operational departments, rather than by accountants; in most departments, communicate by using a contribution 'language' (*ibid.*).

Accounting information's contribution (including budgets and forecasts in contribution terms) underpins organization-specific 'know-how' and is part of employees' stock of knowledge (see Nelson and Winter 1982). In addition, contributions per department or customs office are well-established sources of knowledge throughout the organization. Much of this is tacit knowledge in that staff 'just know' which services make more money than others without necessarily referring to any formal estimates. Contributions focus organizational members on the impact their behavior is likely to have on organization revenues (see Burns 2000). Such widespread use of accounting practices and their routinized nature strengthens the MFR

approach. Thus, the collection and use of budgets, forecasts and other (contribution) plans had become routine activities throughout JCO, and underpinned assumptions of the need to ‘generate revenues’ and ‘contribute towards results’ (*ibid.*).

By 2008, the obsolescence of existing accounting systems combined with political and economic pressures, diffusion of NPM ideas, and advanced ICT, prompted JCO to re-examine its existing accounting systems and re-engineer their practices. It has also established a new management accounting (i.e. budgeting) department and designed an entirely new management accounting system (i.e. new budgeting system). The main aim was the adoption of MFR approach (especially ROB system) by determining the best use of funds by linking the cost of each program or subprogram with the results it achieves. The budgeting process is not simply to prepare a budget in terms of ROB technique, but rather to construct a good strategic plan through the budget system. Management accounting has become an integral part of the organizational process and comprises members from all organizational levels, although much of the accounting information is still produced by the non-accounting departments (e.g. risk management, and strategic planning, etc.), rather than the management accounting department. Accounting information has become ‘diffused’ around the organization and non-accountants carry out many tasks conventionally expected of management accountants (see Burns 2000).

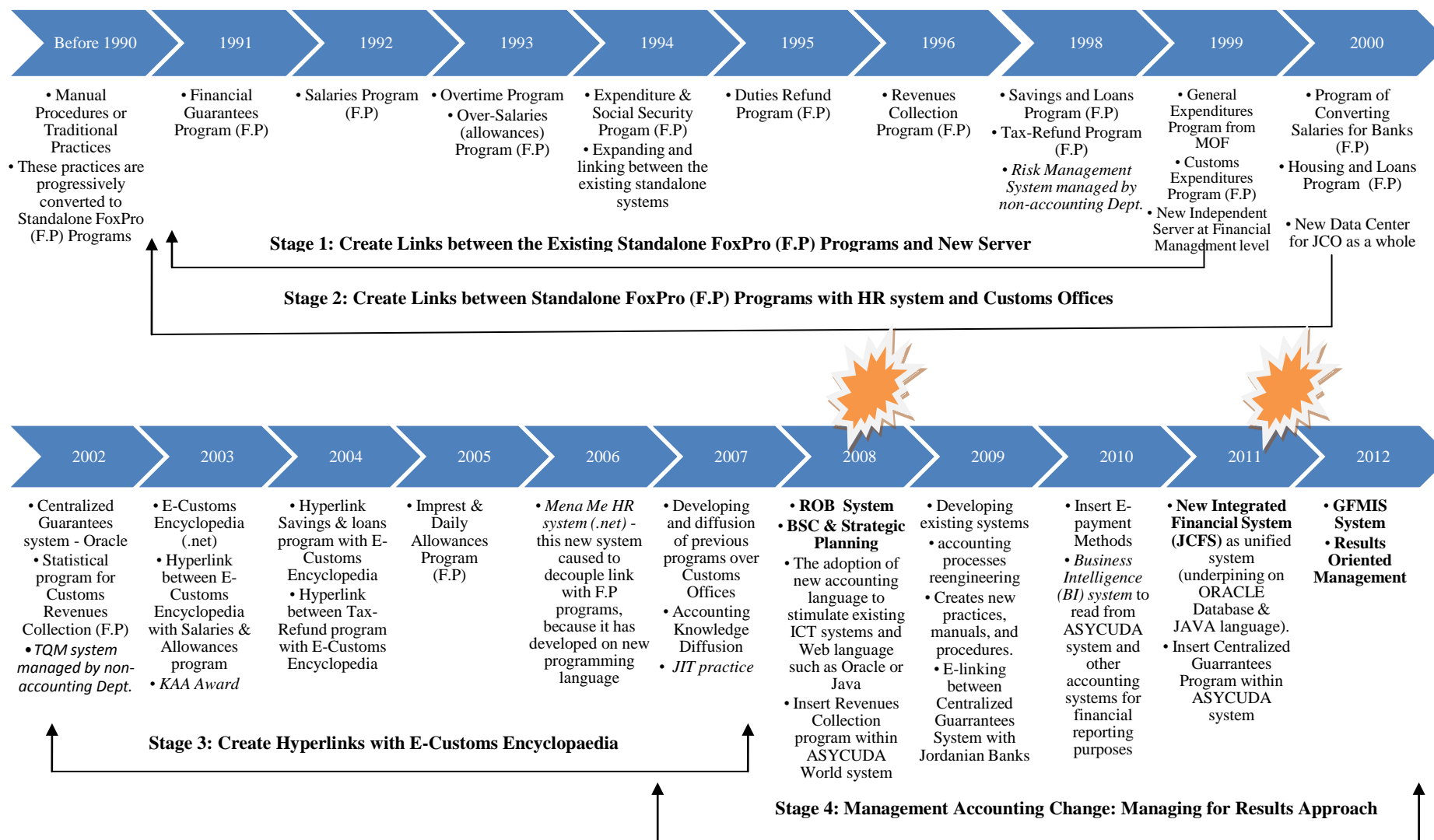
However, the budgeting system introduced a new framework for management and accountability for results instead of objectives or inputs. At the same time, management by results has been improved through the use of accounting systems such as ROB, GFMIS, risk management and TQM. The deputy of CFO argued that

ROB is thus central to effective customs operations and is the key instrument for the carrying out of JCO objectives and programs in terms of its strategic plan. By creating links between JCO strategy, funding, and results, ROB can identify those activities that create the best value, considering trade facilitation and simplifying customs procedures. The ROB process develops a budget that allocates funding to the customs projects based on the priorities established in strategic planning. Hence, it can improve the efficiency of customs services by focusing attention on the cost to provide a service or achieve a result. It also strengthens performance of customs administration and its decisions by connecting work capabilities (tasks, practices, and actions) with objectives. Furthermore, ROB has enabled JCO to achieve effective fiscal discipline and control over the system of customs revenues.

Budgetary control and evaluation, however, cannot be effective without a sound and uniform accounting system, comprehensive data and timely and reliable reporting. The GFMIS system was implemented by JCO in early 2012. A great benefit of a GFMIS is that computerized and

automated accounting, including the budgeting system, eliminates much of the drudgery of manual reporting; simultaneously, time largely improves the accuracy, allowing budget actors to focus on analysis of the data to inform and improve future decision-making. According to the budget change, new rules, routines, norms and culture were encoded and enacted within the JCO. JCO has introduced a range of changes to systems, procedures, and even managerial responsibilities to increase confidence in the level of control exercised over both imports and exports. Consequently, budgeting systems, in terms of ROB and GFMIS, began to change as an organization-wide system in accordance with core processes of MFR¹¹⁵ approach including strategic planning, controlling, performance evaluation, and decision-making. The above discussion, combined with the following figure (6.38) and subsections, explains the evolutionary changes in financial management and management accounting in four stages which occurred over the course of time.

¹¹⁵ Managing for Results or Results-oriented (based) Management, or Results-oriented government are used interchangeably in this study.

Figure (6-38) The Processes of Financial and Management Accounting Change

6.8.1. Managing for Results (MFR) Approach

The changes in management accounting in JCO as well as public financial management over the last decade have been central to the rise of the NPM doctrine and its associated ideas of results orientation and public accountability, of which accounting is a key element. NPM reforms include formulation or operationalization of objectives, strategic planning, measurement of results, follow-up and evaluation of results, new system of control, customer service, and simplification of rules and procedures. More specific examples of change initiatives under NPM reforms included adoption of KPIs, TQM, JIT system, risk management, and budget for results (Christensen and Lægveid 1999). A key branch of the NPM-inspired reforms is the implementation of MFR approach. Under the MFR approach, initiatives are taken to track a measurable set of indicators, and to provide accurate, timely and transparent information on which to base comprehensive reports to all stakeholders (Wescott and Jones 2007). The Government Accounting Standards Board (GASB) (2012) defines the MFR approach as

“A comprehensive approach to aiding public policy [i.e. organizational strategy] and administrative organizations to focus on their missions, goals, and objectives. It establishes the *accomplishment* of those goals and objectives as the primary endeavor for the organization, and provides a systematic method for carrying out that endeavor. It requires the (1) establishment of performance measures, (2) use, and (3) reporting of those measures; so that management, elected officials and the public can assess the degree of success the organization has in accomplishing its mission, goals, and objectives (see also, Aristigueta and Sikkander 2010:2,3).

MFR is thus a management approach focused on realizing results; it is a broad management strategy intended at changing the way the organization operates, with improved performance (realizing results) as the central orientation (OECD 2000). It must be supplemented by organizational policies and strategies, such as human resources, information technology and learning strategies, if it is to have the planned impact on effectiveness. Thereafter, MFR has a strategic, future-oriented approach to the deployment of resources to achieve significant results. Notably, the MFR initiative works best in an atmosphere of TQM and a culture of performance excellence. TQM principles must be integrated with management accounting practices and systems to result in quality and excellence in government (that is, quality products and services, and satisfied customers). Organizations use continuous improvement as one vehicle for promoting a “culture of performance” whereby organizations develop a MFR approach to administering programs and allocating resources to improve performance (DBM 2012). In the same way, JCO has introduced and promoted the culture of TQM principles and excellence in performance among its employees and stakeholders, as a vehicle for change

towards MFR approach. So it is vital that continuous quality standards, such as customer service, culture of excellence, proficiency, teamwork and professional development, are included in the periodic employee evaluations.

As discussed earlier, JCO launched TQM system in 2002 and KAA Excellence Model in 2003. On one hand, the TQM system emerged from two sources: university specialists and imitation. This occurred after the appointment of a new employee who studied Industrial Engineering and TQM at university. TQM system was initially implemented as a similar model to the TQM system (imitation) in the Lands and Surveys Organization. The TQM manager explains:

I was appointed to JCO in 2000, and in 2002 worked in the Directorate of Planning and Organization¹¹⁶ as the head of the organization department. At that time, JCO leadership had asked me to establish TQM system in accordance with International Quality Standards ISO 9001. In 2003 we started continuous improvement in the customs works and procedures by writing the procedures, documenting them, and accrediting clear standards for these procedures. We paid more attention to JCO stakeholders by providing high-quality services and established a complaints box in all customs offices. Thus, we gained the first ISO certificate in 2003, and it was renewed in 2006. Within this time, we decided to establish a new directorate to manage TQM, which was established in 2005 with two departments: Quality Assurance Department and Quality Control Department. TQM was extended to include all customs procedures and services. There are systematic assessments for these procedures and services aiming at continuous improvement. In this way, we have been able to spread the culture of TQM among JCO employees.

The basic elements of TQM's continuous improvement and MFR are identical. Both are systematic approaches to recognizing problems and opportunities that promote customer-focused services, reinforce employee involvement and teamwork, link organizational vision, mission and objectives, use customer-focused, outcome-based performance measures, focus on results, and involve efficient and effective resource allocation and management (DBM 2012). Consequently, quality service for stakeholders is considered the key factor in the MFR process. This has helped JCO to shift from focusing on inputs to concentrating on meaningful, high-quality results.

On the other hand, KAA Excellence Model for government performance emerged and was adopted to introduce MFR and continuous improvement to all customs procedures. KAA is managed by a professional governmental body, aiming to improve and promote quality awareness and performance excellence among public organizations. It has achieved a quantum leap in JCO managers' and employees' ways of thinking and doing, and it has been considered the engine for the adoption of management accounting systems and related

¹¹⁶ The name of this directorate has changed in 2012 to "Strategies and Institutional Development Directorate".

customs processes. Both advisors to the Director General for trade facilitation¹¹⁷ and IT¹¹⁸ described the adoption process of KAA Excellence Model as follows:

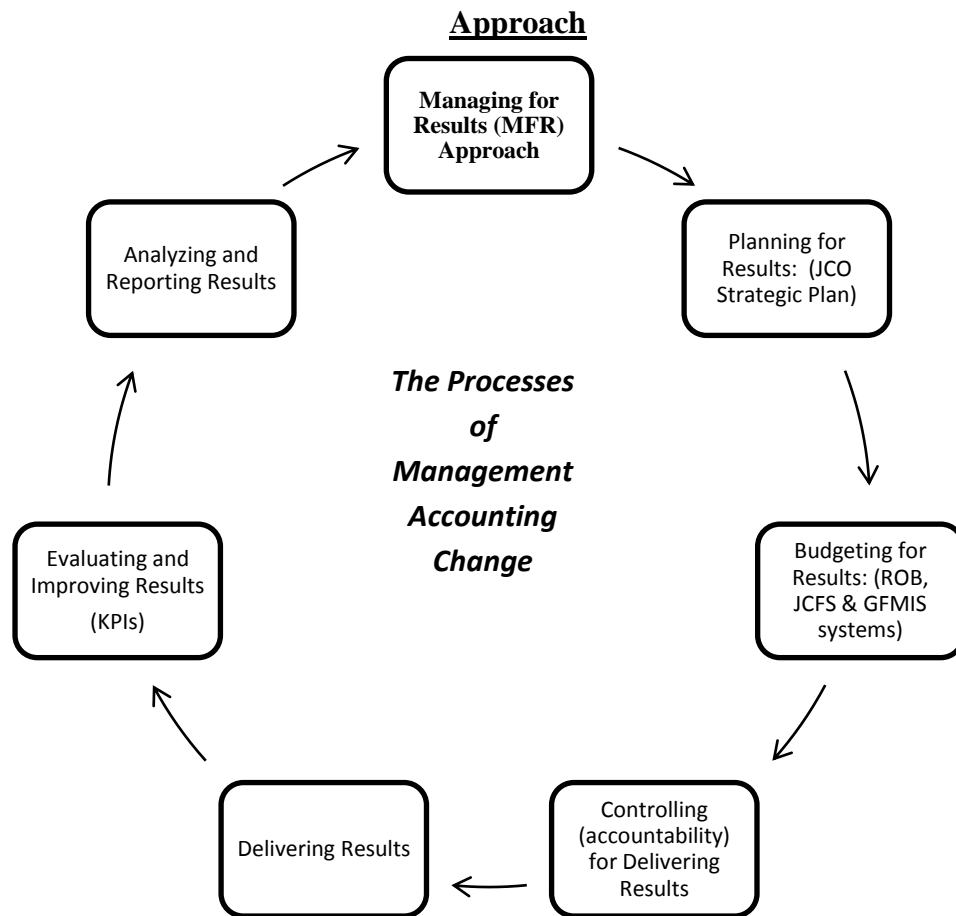
KAA Excellence Model was introduced by the Royal Decree in 2003, as a second copy of the European Foundation for Quality Management (EFQM) International Model. The main aim of this model is to promote results orientation and a culture of excellence in a government context. This model includes five standards: human resources, knowledge, leadership, internal processes, and financial resources (which are also very similar to BSC dimensions). JCO, like other public organizations that used this model, was aimed in search of excellence, and it established five committees (teamwork) to follow the requirements of these five standards. Each committee is held accountable for its specific standard of these five standards, and is responsible for improving the organization within its scope. The model helped JCO to promote the concepts of excellence, customs procedures re-engineering, ICT, TQM principles, accounting knowledge and transparency. In the knowledge diffusion scope, JCO has established E-customs Encyclopaedia in 2003 to accelerate the information exchange process among the employees and increase the transparency. It has also supported recording and documentation of financial and accounting procedures and processes as well as customs processes as work manuals.

The KAA model provided a reference guide and standards for measuring the level of progress of the JCO performance, and contributed to developing the organizational design and its performance. The final objective of this model is to strengthen MFR and strategic planning in public organizations (KAA 2012). Accordingly, Both TQM and KAA model have stimulated JCO to embark on further changes in organizational, managerial and accounting systems. Neither MFR nor TQM nor the KAA model can replace one another, but they can complement one another. An MFR approach cannot easily be imposed on top of the existing bureaucracy¹¹⁹. Rather, it requires progressive organizational change, a dynamic organizational culture, and leadership support. JCO has used MFR approach as processes to achieve results orientation, continuous improvement and trade facilitation for stakeholders. MFR made it possible for JCO to display accountability for results. The JCO case presents a general framework of the MFR approach (as set out in Figure 6.39) through which strategic planning, KPIs, budgeting systems and accountability are aligned and integrated under a unified integrated process.

¹¹⁷ He was leader of KAA Excellence Model during its first adoption in JCO in 2003.

¹¹⁸ She was IT manager in 2003.

¹¹⁹ To build and sustain an environment that supports results-based management, it is necessary to do the following: obtain and maintain visible commitment from top management; adopt a supportive organizational structure and management style, including a commitment to continuous quality principles; increase communication among those involved, including customers and stakeholders; go slowly and resist the temptation to do everything at once; provide extensive training and technical assistance; and work towards some early successes which can be publicized, celebrated, and built upon (see DBM 2012).

Figure (6-39) The Processes of Management Accounting Change Along with MFR

(Source: Author)

6.8.2. Strategic Planning Process

Strategic planning is one of the processes of MFR being used in JCO. MFR presents a systematic approach to strategic planning in four phases that create the following questions: Where are we now? (Internal and external assessment); Where do we want to be? (Organizational mission, vision and objectives); How do we get there? (Organizational strategic plan); How do we measure progress? (performance measures, monitoring, tracking and reporting) (DBM 2012:4).

Strategic planning or planning for results is a future-oriented process of producing fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it. It represents a practical or action-oriented guide that is based on an assessment of internal and external factors, and which directs goal-setting and resource allocation to realize meaningful results over time. It considers a participatory process which

requires the full support of organizational leadership (DBM 2012). At the same time, the organization develops or confirms the mission and values, articulates its vision for the future, sets goals and objectives to plan the direction and uses performance measures to measure progress. Accordingly, MFR describes how to employ strategies and action plans to achieve objectives. Using this approach, the organization develops its strategic plan - a written guide that directs its quality improvement efforts and resource allocation over a period of time. Since strategic planning is a group effort that builds consensus on the future direction of the JCO, the process is more significant than the resulting document (DBM 2012). Hence the formulation of the strategic plan constitutes a milestone in the organization's shift to MFR.

Until the year 2003, there was no strategic planning in JCO. The planning of JCO was traditional, and depended largely on organizational memory, individual work, leadership type and personal skills, focusing on inputs. Although organizational objectives existed, the organizational plan was ill-defined, and ambiguity in these objectives persisted. So, organizational mission, vision, and objectives were merely vague slogans. Strategic planning started in JCO in 2003 as a result of JCO's participation in the KAA Award in search of excellence, which is considered as one requirement to compete for this award. The Strategic Planning Officer explains the evolutionary process of strategic planning in JCO:

The implementation of the strategic plan was started as the first plan for the years 2003-2005, but it was simple, a formality, and separate from budget. Having evaluated this strategic plan, we found that the performance indicators were not being measured properly and accurately. After reviewing the same plan, we modified it partially and developed it to be used for 2005 - 2007. The amendments were partially as a result of the many difficulties and obstacles imposed by the staff in the preparation and realization of the plan, in addition to lack of awareness in measuring indicators and methods of preparation. However, at the end of 2007, the result of the plan was neither expressive nor productive. At that time, we cooperated with Italian experts in a joint project between us and the Italian customs in the preparation of the strategic plan and training the staff. The objective of this experiment was to train and increase understanding among staff and managers in JCO on how to prepare the strategic plan, and the formulation of performance indicators in a logical way that was realistic and easy to measure. Besides, they increased our perception of strategic objectives and their relationships with one another, as well as national objectives. The experience was successful and beneficial to us.

Along with the joint Italian project, the Balanced Scorecard (BSC) was introduced at the level of strategic planning management. The aim of BSC was to improve the mechanism for preparing a strategic plan, measuring performance indicators, and classifying them in terms of four dimensions: financial, customer service and quality, internal process, and growth and learning. The Strategic Planning Officer affirmed that:

BSC was adopted as a result of experience with Italian experts, in order to apply it to the strategic plan for 2008-2010. At that time, we did not know about the BSC practice, and it was a new concept to us. They explained the mechanism of applying BSC in a workshop, and its effectiveness in the preparation,

classification, and measurement of the strategic plan, as well as linking with ROB system. The four dimensions of BSC, their relationships with one another, and their methods of measurement were clarified. Despite the training process, we still faced difficulties and a lack of perception in classifying these four dimensions and arranged them either in main dimensions or KPIs. However, in actual practice under experts supervision, BSC has become clearer and more understandable. Thus, both training and actual practice enabled us to prepare a new version of the strategic plan for 2008-2010, including mission, vision, strategic objectives and KPIs, with clear links between these objectives, BSC dimensions and KPIs. For example, the financial auditing (KPI) will contribute to increasing customs revenues (strategic objective) in the financial dimension. The benefit was high, especially in preparation, analysis and evaluation of plan, because the training included actual practice and feedback made by experts, is not just the theoretical base.

As is evident from the above, JCO developed a new strategic plan for 2008-2010 based on BSC dimensions (as set out in table 6.12), in cooperation with Italian experts. This cooperation helped to increase the perception of strategic planning employees in JCO about preparing a new strategic plan, connecting strategic objectives together with related programs and projects, and developing measurable KPIs for these programs. This plan became acceptable ways of thinking and doing among JCO members, as well as a taken-for-granted targets for the organization.

Table (6-12) JCO Strategic Plan 2008-2010: the First Strategic Objective.

Strategic Objective	BSC Dimensions	Customs Programs and Projects	KPIs	Targets		
				2008	2009	2010
Trade Facilitation: Updating and developing operations of Customs procedures	Financial	Facilitating customs revenues collection	Number of E-payment transactions via visa electronic	14 M	15 M	16 M
			The number of marketing campaigns about prepayment service	2	3	4
	Internal Process and Organization	Technological development of Customs procedures	Number of Customhouses employing the World ASYCUDA System	7	11	20
			Number of commercial banks connected to the Department via the Central Guarantees System	3	6	10
			Number of Customhouses connected electronically to other countries	4	6	7
			Number of Customhouses connected to the updated digital communication network	4	11	21
			Number of governmental departments and institutions connected electronically to the Department	4	5	6
			Number of developed computerized Customs systems	3	7	12
			number of magnetic cards for diplomats and bodies exemptions	study	applied	applied

			Value of laboratory devices provided to Customs laboratories	80000	35000	35000
		Improving Customs value procedures	Number of transactions entered into Customs value database system	4800	5300	5900
			Number of surveys in the field of goods value	80	95	100
			Number of analytical studies in the field of vehicles and goods value	180	210	240
			Number of customs transactions transferred to the Department and related to value differences	1100	2100	3100
	Learning and Growth	Specialized training on electronically updated procedures	Number of trainees in the field of the World ASYCUDA System	400	600	800
	Customer Service and Quality	Creating a paperless work environment	Number of clients visiting the Department for inquiry	0	-20%	-20%
			Number of services offered through Public Service Office	15	30	53
			Number of services offered through short messages (SMS)	7	12	17
			Number of messages sent via SMS	40000	90000	150000
			Number of messages received via SMS	0	+5%	+10%

(Source: JCO strategic Plan 2008-2010: 21-22)

The Strategic Plan provides the priorities for measurement; the BSC dimensions are keys to directing JCO processes and determining budget allocation. The outcomes of KPIs provide data on staff performance, development and satisfaction for use in directing improvement targets. The BSC does not try to displace other measurement systems but, rather, attempts to coordinate and align between them. Customs managers were then better able to determine effective and non-effective measures and take action accordingly. From their successful integration of the BSC, JCO describes these linkages in the following way: The strategic plan derives from the BSC; the BSC forms the execution phase; operational outcomes present data for the BSC, which confirm or propose changes to on-going operations; implementation of the projects and programs growing out of the strategic plan also introduce experience and data for

dialog between leadership and managers, which produces feedback into the formation of the next strategic plan (see DBM 2012).

The moment BSC came to fruition in the strategic plan for 2008-2010, a decision was made by the Cabinet to impose a new integrated system for strategic planning to be applied by all public organizations, including JCO in 2010. But, at the same time, BSC did not find sufficient support from the leadership and participating members from outside the strategic planning process. That is why the BSC system was replaced by a new government system, controlled by both DU in the Cabinet and MOPSD. The New Government system (DU system) emerged as a result of the appointment of a new prime minister¹²⁰, who required a new integrated and automated system to be implemented in all public organizations, with a focus on the results. Thus, both DU and MOPSD provided many training courses for JCO and other public organizations about the preparation technique for the strategic plan in accordance with the new DU system and MFR approach. The DU Manager, speaking to the author, stated:

The Government goal for establishing the delivery unit (DU) system is to create a comprehensive automated database for all government projects and link them to national goals as well as strategic objectives at organizational level. In this unit, we review and evaluate capital projects through the percentage of completion and performance indicators for each project. This automated system enables to detect any low indicators or lack of progress in these projects; hence we determine the reasons and obstacles to progress in the workflow and resolve them right away (see figure 6.40). It has developed a new methodology ensuring the achievement of full compatibility of government strategic planning in the long, medium and short term, toward National Agenda, ROB System, and Executive Development Program. At the same time, all public organizations have access to this system, and they regularly insert their capital projects as listed in their strategic plans.

Figure (6-40) Automated DU System for Strategic Planning Process

اسم المشروع	هدف المشروع	وضع المشروع	الجهة العليا	اسم الجهة	نسبة الايجاز الكلية	تاريخ آخر تعديل	تعديل
بناء القدرات في مجال الاعلام	المشروع متأخر	تأخر	رئاسة الوزراء	إدارة الإعلام والاتصال	0	12/26/2010 AM 10:32:27	
الاتصال والاعلام	هدف المشروع	موقوف	رئاسة الوزراء	إدارة الإعلام والاتصال	83	12/23/2010 AM 10:16:59	

(Source: Manual of Automated DU System: 3)

¹²⁰ As argued by Burns and Scapens (2000), the successful implementation of formal change may require new ways of thinking and doing.

Accordingly, the Automated DU System helped to reinforce the relationship between strategic planning and ROB system in order to achieve MFR. It helped create a radical change in the mechanism of strategic plan preparation in different way from the BSC mechanism. In line with this, JCO has prepared its strategic plan for 2010-2013 by linking national objectives with strategic objectives through sectorial objectives with the intention of achieving JCO's vision and mission. These strategic objectives are further divided into subsidiary objectives, programs and projects that are measured by reliable KPIs (see table 6.13).

Table (6-13) KPIs of the Third Strategic Objective

The third strategic objective	KPIs		Responsible Party	Reference value 2010	Target value		
					2011	2012	2013
Supplying the Treasury with Financial Revenues	1	The Value of Customs Revenues (Billion)	Financial Affairs Directorate & Customs Offices	1.264	1.315	1.354	1.395
	2	The Percentage of Operating Expenses Control	Financial Affairs Directorate	10%	10%	10%	10%

(Source: JCO Strategic Plan 2011-2013:32)

To fulfill the requirements of JCO and the Government, a new department for strategic planning was established in 2012, which is subservient to the Strategies and Institutional Development Directorate. This department has developed a new methodology to prepare the JCO strategic plan. As explained by several interviewees and by participants in focus group discussions from Strategic Planning Department:

JCO strategic plan is currently prepared every three years using the following procedures: 1) evaluating the previous strategic plan; 2) a meeting held between the General Director and the strategic planning team and managers; 3) reviewing and developing new vision, mission, and objectives for JCO; 4) preparing initial assessments of internal and external (SWOT Analysis¹²¹) factors that influence the organization's efforts to achieve its mission; 5) preparing a matrix for linking up strategic objectives with national objectives; 6) identifying programs related to strategic objectives; 7) identifying KPIs; 8) linking strategic plan with ROB system by specifying financial costs and sources of funding; 9) circulating the strategic plan throughout the JCO, once it approved by General Director in order to be considered in the work immediately.

¹²¹ SWOT analysis acronym refers to analysis of: Strengths (internal), Weaknesses (internal), Opportunities (external) and Threats (external).

Strategic planning represents a process in which JCO looks to the future to identify a vision, create a mission, and develop values and objectives. It entails a systematic review and assessment of organizational resources in order to set the future path for JCO. A good strategic planning process assists JCO to assess the environment (Porter 1980), determine what it will commit to and direct employees in both individual activities and routine decisions (see Williams 2002). Therefore, strategic planning has been designed to help JCO respond effectively to its new situations as well as national and international requirements. Strategic planning is thus viewed as emergent, an incremental process of learning and developing new ideas from experience and reaction, much like the psychological view of retrospective sense-making (see Bryson 1988). Consequently, it directs goal-setting and resource allocation to achieve meaningful results for the JCO. These results, however, cannot be achieved without a good budgeting system.

6.8.3. Budgeting for Results Process

In the MFR process, the budgeting system is an integral part of planning. Planning sketches the path and permits the setting of priorities. The budgeting system provides financial resources to implement the strategic plan. The objectives and KPIs from the strategic plan are normally used as a basis for annual budget demands; at the same time, the strategic plan drives the budget request (DBM 2012). KPIs, which are derived directly from strategic objectives, connect between strategic plan and budget, as key elements of the strategic management process (Poister and Streib 2005). As mentioned in the previous chapter, the Jordanian government has implemented the MFR approach in terms of budgeting systems in three stages: 1) introduced ROB; 2) developed new MTEF and COA; and 3) implemented GFMIS. The MFR initiative produced a more results-oriented public management by the linking of strategic planning with ROB system by using measurable KPIs. To do so, the government imposed these budgeting systems regularly and intentionally on public organizations, including JCO.

Along with the implementation of PFM reforms, the focus of management accounting has shifted from inputs and control of expenditure into accountability and efficient allocation of resources, with the emphasis on making management more accountable in financial terms (Humphrey *et al.* 1993; Gray and Jenkins 1995). The wider socio-economic and political environment created public sector adoption of the new management accounting systems. Public organizations, due to public sector and fiscal reform initiatives, have to respond to

macro-level pressures. Management accounting change in public organizations, enacted as part of the PFM reforms (Nor-Aziah and Scapens 2007), may lead to the expected impact on daily activities and organizational performance. In Jordan, the Organic Budget Law no. (58) of 2008 requires public organizations to develop strategic plans and link them with budgets and KPIs to ensure the achievement of the expected results efficiently and effectively to achieve their objectives. Similarly, MOF have also imposed similar results-oriented requirements through legislation or executive regulations. JCO has responded to local government jurisdictions by implementing the ROB system in 2008, JCFS in late 2011, and GFMIS in early 2012.

6.8.3.1. ROB System

The budgeting system in JCO is influenced by the State (central) budgeting system. Any change in the State budgeting system causes a change in JCO budgeting system. As a result, the budget of JCO has been changed a number of times in response to changes in the Central State Budget, as explained by several interviewees (Financial Analysts of Central Budget) in General Budget Organization (GBO):

GBO was established in 1962, and the first State budget was prepared in 1963, which took the traditional form. Afterwards, the Line-item budget was adopted and prepared in accordance with Organic Budget Law (No. 39) for the year 1962. This classified the budget into two main categories: revenue and expenditure, for purposes of financial control only. Under the same law, programs and performance budget were adopted until the end of 2007, to expand the role of budget instead of financial control to be more focused on the efficiency of government performance and the accomplished works. In 2008, the new organic Budget Law (No. 58) for 2008 has been issued to replace the old Law for 1962. This represents a new era (radical change) in budget preparation based on ROB. This change has been accompanied by other fiscal reforms including Medium-Term Expenditure Framework (MTEF) and the new Chart of Accounts. According to ROB, all ministries and public organizations (including JCO) must recognize their vision, mission, strategic objectives, programs, projects, and performance indicators within their strategic plans, in line with national objectives and to link the budget with the strategic planning. The main aim of ROB is to allocate resources based on national priorities, and the results that they are expected to achieve.

At the organizational level, following the diffusion of ROB system within the governmental field, the Jordanian government imposed ROB system on the JCO as a pioneering organization in 2008. The General Director of JCO issued a formal decision to apply and encode the new ROB system. Thus, JCO started to implement this system by training existing employees and establishing a new budget department and a strategic planning department in 2012. Hence, ROB system has led to a change in organizational structure in order to facilitate the process of change in the budgeting system. The aim of these new departments, as discussed by interviewees, were: a) to prepare the budget by focusing on the results in terms of ROB system within MTEF; b) linking of ROB system with strategic planning for the next

three years; c) following up capital projects and programs in accordance with the ‘State Financial System’; and d) to coordinate ROB programs and projects in accordance with the central ROB system. At the same time, a new strategic planning department was established to coordinate all programs and projects in the ROB system in relation to organizational strategic objectives. Hence, these strategic objectives were prepared in reference to national objectives. In this regard, the Budget Department Head affirmed that

“The ROB was a new concept; before and during the implementation phase, we took many training courses about ROB and its mechanism from both the GBO and the Customs Training Centre. A continual dialogue was always occurring between us and GBO about the most important practices of the new direction of the budget, to where we were and what were the next steps for the application. The key difference between previous budgets and ROB is the focus on capital projects and strategic planning. There was no more activity in JCO on the large capital projects before 2008, and the budget included only current expenditures and revenues. After 2008, JCO began to be more concerned with these projects. For example, the cost of capital projects in 2008 was 1.185 million; between 2009 and 2011, there were several capital projects, costing 7.719 million. This led to a quantum leap in this period in the JCO, especially in the technological and financial projects. This required the establishment of a new budget department aiming to follow up these projects by focusing on results and linking them with strategic planning and national objectives”.

A transition to ROB system has required a number of changes in JCO’s way of doing business. Thus, it has developed and implemented a number of accounting practices and manuals that are more suitable for the new budgeting system. As part of these accounting changes, new roles were established for accountants (Nor-Aziah and Scapens 2007). In doing so, the ROB system helped to encode and enact many new accounting practices and techniques, such as new integrated financial system (JCFS), budget classification, accountability, procedures path, new financial committees, and new chart of accounts (COA) etc. The Deputy of the CFO explained the processes of budgeting change:

The change in the budgeting system led to the creation of many accounting practices among the organizational members, such as budget manual, expenditure mechanism, new chart of accounts, budget preparation methodology, etc. Nevertheless, the change process has continued as a new culture among employees, so the JCO supports any new idea that can serve the financial and non-financial work. We have developed all methodologies and mechanisms of financial and accounting action; we examined the application of these procedures in practice, and we have observed the best working procedures in comparison with the same department in other pioneering organizations. Accordingly, we have reviewed and re-enacted our working methodologies, procedures and mechanisms and, if necessary we will consider in our work any evolutionary change toward the best practices; at the same time, we must take formal approval from top management to make these practices as acceptable ways of doing things among organizational members.

Within the JCO, budgeting procedures have been modified in a set of rules laid down in the ‘budgeting manual’. As these new rules, i.e. budgeting procedures, are implemented and changed, modifications of the actual practices have occurred, either deliberately or unconsciously. Deliberate changes have taken place due to resistance within the organization, or because of the particular circumstances of that organization. Thus, the resistance to change

in the JCO was largely represented in mental allegiance to certain (old) system by some actors, or to particular ways of thinking and doing things embodied in existing routines and institutions (see Burns and Scapens 2000). Other changes have happened unconsciously when the rules were misunderstood or were inappropriate to the circumstances (see Nelson and Winter 1982). However, in the enacting process of the budgeting procedures, new routines have emerged and been reproduced over time by passing them to new members inside the JCO. In doing so, ROB practices have become acceptable ways of doing things or taken-for-granted institutions among the JCO members. The Budget Execution Officer pointed out that:

The principal notion of adopting ROB system is accountability as well as MFR approach, which means that any manager will be questioned in regard to weak performance indicators or expenditure amounts. For example, if any project manager has required 5JD million to execute a capital project for one year, and at the end of year he has not completed the project or has spent only 3JD million on the project, he should be accountable for the residual 2JD million because he did not accomplish the project within the designated time plan, and he did not use the required amount that could have been used in another project. Under the new budgeting system, the projects managers became formally responsible for keeping their spending within the budget terms, and accountable to top management for any expenditure variances. Accordingly, ROB has established a new organizational culture among financial and nonfinancial specialists.

Since ROB is a new system of planning, budgeting, and performance measurement that highlights the relationship between amount budgeted and results expected and achieved, it has become an inclusive approach that involves all JCO networks (stakeholders, employees, and citizens) through the development of a strategic plan, identifying spending priorities and performance indicators. ROB also has a long-term perspective by linking spending with strategic planning, and by focusing on results it makes sure managers are held accountable for certain performance indicators (USAID 2012a). As mentioned by several interviewees in the Budget and Strategic Planning Departments:

“ROB is the same strategic planning or vice versa, while the budget in the past was prepared for only one upcoming year, but currently the budget is prepared for the next three years (one is estimated and the others are indicative), accurately in congruence with the strategic plan. The aim of MFR is to focus on the results of projects or programs, but not on the objectives of these projects. One implement that the Budget Department has already applied which serves to increase JCO responsibility to response to national priorities is the use of Expenditure Limits in budget planning. The key idea behind the use of limits is to move away from control of inputs to a policy-led budget preparation model where the JCO plans its budget by allocating resources among priority programs; in this way, it will be able to make adjustments as situations change. The final aim is to measure the efficiency of spending on programs and projects through the set of reliable performance indicators. Procedures for the application of ROB include the following: identifying the vision and mission of the JCO, in congruence with the strategic goals and national objectives; then, identifying programs and projects in accordance with those objectives, which must be classified in terms of the budget classification and chart of accounts; and, finally, the development of a portfolio of performance indicators at all levels and stages in order to identify sources of funding (see figure 6.41)”.

Figure (6-41) JCO Budget for 2011 in Accordance with ROB system

Chapter :1503 Ministry of Finance/Customs Department

Vision

To become world pioneers in delivering high-quality custom services for all department's clients.

Mission

Providing excellent custom services that meet the comprehensive development requirements, and that keep in pace with the developments on both national international levels.

Legal Framework

Customs Law No. (20) for the year 1998.

Strategic Plan :

Preparation Year :2010

Period Covered By The Plan :2011-2013

Strategic Objectives / Performance Indicators

Strategic Objectives Description	Performance Measurement Indicators	Base Value		Actual Value	Target Value	Initial Internal Evaluation	Target		
		Base Year	Value	2010	2011	2011	2012	2013	2014
1 - Developing the Institutional capacities and general performance.	1 Percentage of service recipients satisfaction	2010	%80	%80	%81	%81	%82	%82	%82
	2 Percentage of personnel satisfaction	2010	%88	%88	%88	%88	%89	%90	%90
	3 Number of trainees in all fields	2010	3017	3017	3000	3000	3050	3100	3300
	4 Number of developed computerized systems	2010	8	8	10	10	5	5	7
2 - Combating smuggling and illegal activities, as well as facilitating the movement of transit trade.	1 Percentage of collected customs cases to overall number of data	2010	%1	%1	%1	%1	%1	%1	%1
	2 Percentage of collected customs violations cases to overall number of data	2010	%5	%5	%4.8	%4.8	%4.6	%4.5	%4.5
3 - Supplying and enhancing the financial resource to treasury	1 Value of customs revenues (in billion JDs)	2010	1,264	1,264	1,315	1,315	1,354	1,395	1,390
	2 Percentage of operational expenditure control	2010	%10	%10	%10	%10	%10	%10	%8
4 - Contribute to promote the investment work environment	1 Number of free commerce agreements (removing customs duties)	2010	2	2	2	2	1	1	1
	2 Goods release time (minute)	2010	98	98	96	96	94	92	90
	3 Number of domestic industry production inputs which are exempted from customs duties	2010	10	10	5	5	5	5	10
	4 Value of granted exemptions as per the investment promotion law(million JDs)	2010	445	445	450	450	455	460	475

Overall Summary of Expenditures for Chapter 1503- Ministry of Finance/Customs Department for the years 2010 - 2014						
(In JDs)						
Group	Description	Actual 2010	Estimate 2011	Re_Estimate 2011	Estimate 2012	Indicative 2013 2014
Current Expenditures						
2111	Salaries, Wages and allowances	11,420,839	12,660,000	12,233,000	13,990,000	14,655,000 16,388,000
2121	Social Security Contributions	798,971	966,000	823,000	900,000	991,000 1,053,000
2211	Use of Goods and Services	1,736,862	1,245,000	1,245,000	1,170,000	1,220,000 1,270,000
2821	Other current expenses	1,437,251	1,513,000	1,513,000	1,550,000	1,550,000 1,550,000
Total current expenditures		15,393,923	16,384,000	15,814,000	17,610,000	18,416,000 19,261,000
Capital Expenditures						
3112	Machinery and Equipment	1,178,700	7,319,000	7,110,000	6,541,000	3,030,000 2,530,000
Total capital expenditures		1,178,700	7,319,000	7,110,000	6,541,000	3,030,000 2,530,000
Treasury		1,178,700	7,319,000	7,110,000	6,541,000	3,030,000 2,530,000
Total current and capital expenditures		16,572,623	23,703,000	22,924,000	24,151,000	21,446,000 21,791,000

Current Activities Appropriations							
Prog.	Projects		Actual 2010	Estimated 2011	Restimated 2011	Estimated 2012	Indecative 2013 2014
2401	601	Administrative and support services	5521701	6078000	5984500	6225000	6483000 6750000
		Total of Program	5521701	6078000	5984500	6225000	6483000 6750000
2410	601	Anti-smuggling and illegal activities	1322441	1192250	1168500	1474000	1540500 1641000
	602	Customs Accompaniment	1322448	1191250	1164000	1474000	1540500 1640350
		Total of Program	2644889	2383500	2332500	2948000	3081000 3281350
2405	601	Providing customs services	7227333	7922500	7497000	8437000	8852000 9229650
		Total of Program	7227333	7922500	7497000	8437000	8852000 9229650
		Total	15393923	16384000	15814000	17610000	18416000 19261000
Capital Projects Appropriations							
Prog.	Projects		Actual 2010	Estimated 2011	Restimated 2011	Estimated 2012	Indecative 2013 2014
2401	001	Implementation of E-Customs project	0	0	0	81000	100000 100000
		Total of Program	0	0	0	81000	100000 100000
2410	001	Managing and Following up Transit Trucks System	178700	750000	750000	500000	400000 400000
		Total of Program	178700	750000	750000	500000	400000 400000
2405	002	Camera and Television Control System	1000000	1000000	1000000	800000	1000000 1000000
	003	Provide the customs centers with x-rays systems/Europoean Grant	0	4000000	4000000	3700000	0 0
	004	Implementing the single window system	0	500000	300000	400000	500000 500000
	005	Applying the e-inspection system through global ASYCUDA system	0	0	0	400000	500000 500000
	006	E-linking with private and public sectors	0	0	0	0	10000 10000
	007	E-linkage with neighbouring countries	0	19000	10000	10000	20000 20000
	008	Application of Automatic control system (e-gates) European Grant	0	800000	800000	400000	500000 0
	009	Training and Simulation system for analyzing X-rays images of trucks in	0	250000	250000	250000	0 0
		Total of Program	1000000	6589000	6360000	5960000	2530000 2030000
		Total	1178700	7319000	7110000	6541000	3030000 2530000

(Source: General Budget Organization: 2011)

The implementation of a strategic plan can be achieved by following a top-down approach, where the objectives – at government field level and MOF level - introduced monitoring practices and government priorities including fiscal and monetary policy. The implementation of ROB can be prepared by following a bottom-up approach, where the system is first implemented in JCO to create KPIs and its finance sources to measure their own performance, and is then sent to the MOF and GBO. It is important to mention here that JCO started to prepare its annual budget in accordance with ROB system starting from 2008. ROB is thus a life-cycle approach to management that integrates strategy, citizens, resources, processes and measurements to improve decision-making, transparency and accountability. The approach focuses on achieving results, implementing performance measurement, learning and changing, and reporting performance. Thereafter, ROB generates performance information to support the decision-making process during planning and implementation of public policies. In this regard, it would define an indirect relation between financial resources and results by using targets to inform budget decisions, together with other information, i.e., indirect ROB (OECD 2004). Budget staff (the head and his subordinates) participating in a focus group discussion describe the methodology of annual ROB cycle as follows:

Annual budget cycle includes: (1) analyzing the financial performance of the previous year; (2) Studying the ministerial decree regarding the preparation of the budget and its priorities; (3) Estimating the projected revenue in the next three years; correspondence all customs directorates and offices to determine their needs (projects and programs), and sending their budgets in terms of MTEF¹²² to the financial directorate/budget dept. within a specific period of time; preparing a matrix for all customs directorates and offices, and determining the required spending ceilings; setting consultative meetings with managers of directorates and offices, for defining prioritizations, especially with regard to capital projects; preparing historical comparisons and measuring the efficiency of estimation of current expenditure items and re-estimate of the expenditure for the current year; determining priorities in alignment with the available resources and the requests of customs directorates and offices; and approving the draft budget by top management and sending it to GBO to be included with central ROB at state level.

However, these procedures were written in a budget manual, and became an acceptable way of working among organizational members. The implementation of ROB enhanced the efficiency in the accomplishment of public targets. It has promoted better targeting and quality of public goods and services as a consequence of interaction between the top management power (supply side) and executive managements (demand side) (Gómez et al. 2009). It has also improved the independence of control and increased the transparency of the

¹²² The Medium-Term Expenditures Framework (MTEF) complements the Medium-Term Fiscal Framework (MTFF). The MTEF, introduced into the fiscal rules in 2008 by the MOF, allocates the total amount of public resources to different public sectors (e.g., infrastructure, social expenditures) in a manner consistent with the macroeconomic objectives as defined by the MTFF (i.e., public debt, primary surplus, inflation target, growth). The MTEF is a practice which covers the following three-year period but it is reviewed and revised each year, as needed (see Gómez *et al.* 2009).

JCO budget. In addition, the new system has increased the awareness of senior employees of the significance of the financial dimension in the strategic planning. The ROB has also facilitated the allocation of funds to individual programs, increased the level of involvement of program managers in setting financially realistic program objectives, and made program managers more accountable for the management of the financial resources allocated to the achievement of those objectives (*ibid.*). The Budget Department Head highlights the successful implementation of ROB as follows:

“JCO has more ability to embrace change than others in other organizations. The reasons are that JCO has self-funding sources, highly qualified employees (accounting, finance, technical and IT), strategic management staff, and financial dimension in KAA Model, international harmonization, customs infrastructure and technological systems”.

The successful implementation of an effective ROB system is fundamental to ensuring that critical elements of JCO planning are synchronized to support trade facilitation and customs procedures capable of achieving JCO’s mission. It is apparent now that the ROB has totally changed the decision-making environment and relationships among all types of planning subsystems in the JCO. This requires new system (i.e. JCFS) links for better integration of the existing financial and accounting processes with the resource management at organizational level. The implementation of JCFS emerged in order to make JCO financial environment adaptable with MOF environment, and as platform for ease connecting with GFMIS. Furthermore, the new ROB system called for the establishment of a new MOF financial management system - GFMIS - to accelerate and control procedures of budgetary resources. The following section explains how JCFS was introduced by JCO as a platform to adopt GFMIS.

6.8.3.2. JCO Integrated Financial System (JCFS)

Following the implementation of the ROB system, and bearing in mind the intention of MOF to implement GFMIS system, JCO embarked on changing its existing outdated FoxPro systems (i.e. stand-alone systems) with a new integrated financial system in 2010, to support financial, accounting and managerial decisions. JCFS is a joint project between JCO financial staff and IT specialists. JCFS was developed by using a new language (Java) and database (Oracle), which enabled it to create a new link with ASYCUDA system from one side, and with GFMIS from another side. It has thus provided high standards of information security, confidentiality, and coordination for all financial transactions and historical events, which is different from the unsecured and porous stand-alone FoxPro systems. As a result, JCFS

combined all internal accounting practices by re-engineering stand-alone accounting processes under one unified integrated system, in its adaptation with GFMIS and the new culture of the ROB system. The management of the JSFS project affirmed that the system has been influenced by external factors; hence, the system will change from one phase to another. In this light, the JCFS Project Manager (IT specialist) explained that:

“The JCO has embarked on JCFS project to develop existing financial systems that were used for more than twenty years. The existing systems were developed on FoxPro language, which is old, fragmented, unsecured, un-integrated (stand-alone), had a monopoly of knowledge, and lacked historical files. These drawbacks invited financial staff to appear to desire a change to JCFS. The aims of this system are to develop a new integrated financial system with all available control means and information security, and integration with the relevant customs systems such as ASYCUDA. Furthermore, there is the possibility of linkage with GFMIS system that was developed by the MOF, since both of them have the same programming language, Java, and similar database, Oracle. We have faced some difficulties in Java language, but this was solved by taking new training and hiring a Java expert for one year, who was provided and funded by USAID-FRP II. Accordingly, in cooperation with the finance cadre, we set the procedures of the new system as follows: establish new committee (teamwork) including both finance and IT staff; create manual working procedures and scan for existing computerized systems and other manual works; gain a clear and accurate understanding of all existing financial procedures and workflow map; and prepare a guide for the implementation of the new system.

The desire for change came after the diffusion of the results-oriented culture, especially ROB, among financial staff, and to keep pace with new developments and the use of the latest technologies in the public financial management systems. As mentioned by several interviewees in financial directorates, the main reason to change was as follows:

“Existing stand-alone FoxPro systems were developed through the initiative of one employee in the financial directorate, who has a programming background and is an IT specialist. He was appointed to the finance cadre, and started to change the accounting procedures from manual procedures to computerized programs, with support from IT staff. However, these programs are complicated, including multi-overlapping screens, and require an IT employee to process accounting procedures. When this employee is absent or on leave, there is no one with his knowledge to process the procedures (monopoly of knowledge), which caused delays in the work. Thus, to avoid the loss of knowledge when this occurs, JCO has implemented JCFS to disseminate the knowledge among all finance staff. Hence, JCFS is designed in a Web setting, and provides high flexibility with simple screens and procedures, and any of the staff can do so alternately”.

The implementation of JCFS has occurred through the continual coordination and negotiation from the formed committee. The implementation process was influenced by internal factors including HR management (Mintzberg 1993), technological facilities (Wilson 1989), organizational culture (Schein 1996; Jarnagin and Slocum 2007) and internal control system (Bergmann 2009). By examining external factors, it was also considered that new changes should comply with the principles of legislation of the ‘State Financial System’. However, this system issued previously in the form of financial law includes some traditional financial practices and regulations which do not allow the use of information technology or automated

systems in financial matters; hence, it impedes the change process. Nevertheless, these factors have not had a destructive impact on the new budgeting systems; they will have a supportive and evolutionary effect and will serve the public interest by making accounting, budgeting and reporting more transparent, consistent and comparable (Tikk and Almann 2011). Thus, the key sets of external factors that have been considered are economic and political factors (Von Hagen 2006; Bergmann 2009), legal acts (Guthrie et al. 1999), resource dependence (Salancik and Pfeffer 1978; Hodge and Piccolo 2005) and other public organizations in the same field (Chan and Xiao 2009).

JCFS was implemented a year ago in accordance with practical channels of both ROB system and GFMIS, which helped to provide all the information required to prepare and execute the budget in any of the different formats. In doing so, the Budget Preparation Officer stated that:

“JCFS has enabled us to link with GFMIS; the latter is a system for managing financial information on the state level. Accordingly, the MOF has distributed subsystems for public organizations including JCO that are specialized for monitoring public expenditures. These subsystems have a link with the GBO, through specific screens linked electronically with the receptors (server) in the MOF. Both GFMIS and JCFS are inextricably linked by automated chart of accounts comprising all ROB accounts. Thus, ROB system is now preparing and executing electronically at all stages. Hence, the application of JCFS is considered a platform to adapt with GFMIS and to fill the gap with ROB system. At the same time, JFCS has links with ASYCUDA in terms of revenue collection, with Mena-HR in terms of staff salaries, and with E-customs encyclopedia for staff accessibility and transparency (see figure 6.42).

Figure (6-42) JCFS System



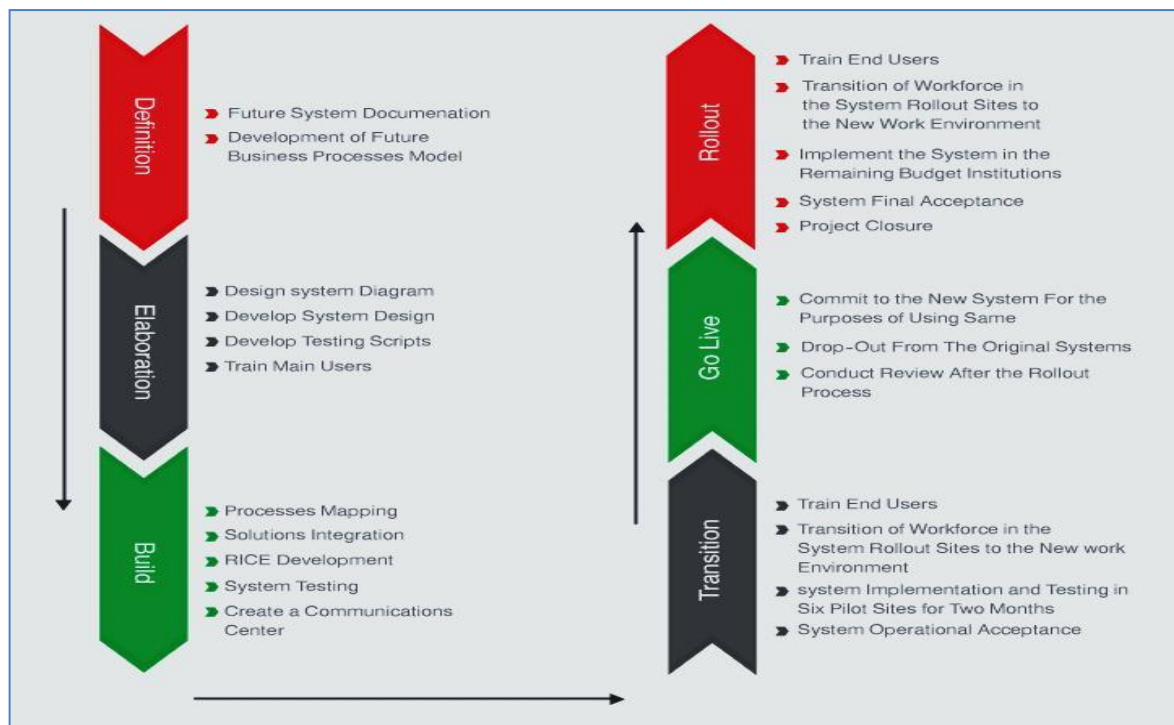
(Source: Finance Directorate, JCO)

JCFS reports are handled internally as managerial and accounting support tools. Both the financial directorate and budget department prepare recommendations and decisions drafts, derived from these reports, to help decision-makers especially top management and finance minister as well. The recommendations are discussed in periodic meetings, along with other sources of information that support budgeting and planning decisions (Gómez *et al.* 2009). According to the JCFS project team, JCFS has led to many changes in practice and ways of thinking among JCO employees, including the following: simplicity in the use of financial systems and procedures; diffusion of accounting knowledge and breaking its monopoly by a few employees; a high degree of confidentiality and information security; delegation and decentralization; saving time and effort by not having to repeat the insertion of information due to the integration of systems; and providing self-service for Internet service recipients. Furthermore, the modern language (i.e. Java) and database (i.e. Oracle) underpinning JCFS have contributed to the adaptation of the financial environment by providing a dynamic infrastructure that enables easy connection with any modern accounting systems, especially GFMIS. The GFMIS can establish an effective trade-off between scarce resources and budgets by transforming and developing a more efficient automated budgeting system.

6.8.3.3. GFMIS System

Implementation of GFMIS system often forces organizations to re-engineer their business processes and/or organizational structures. As discussed in previous sections, JCO implemented JCFS in order to adapt the organizational settings with new GFMIS. GFMIS develops public management accounting to enter a new era of universal uniformity in the sense of the wider context of PFM in which it operates. GFMIS was initially implemented by MOF in 2009, which subsequently imposed this system on all public organizations including JCO. Some interviewees from MOF stated that the aims of implementing GFMIS were as follows: to develop one integrated accounting system to be used by all budget organizations under one network (server) controlled and managed by MOF; to implement ROB processes and procedures automatically in the whole government; integration with the central bank, customs accounting system, income tax and sales, and E-government; and to unify all public accounting procedures. The successful implementation of GFMIS was underpinned by supportive change management, modern organizational culture and intensive training (see figure 6.43).

Figure (6-43) Change Management of GFMIS System



(Source: GFMIS Project, Jordan)

GFMIS is a comprehensive integrated system including these subsystems: budget management system; revenue management; procurement management; payables and receivables management; cash management; and general ledger (*ibid.*). The focus of the JCO case-study is on the budget management system. According to the complicated process of the ROB system along with various stand-alone accounting systems used in different organizations, the GFMIS helped to automate the whole life cycle of budget preparation, classifications, budget execution and financial reporting. In doing so, an integrated GFMIS has contributed across public organizations to ensure transparency and accountability in resources allocation, and proper usage and monitoring of State public resources. It also helped link all public organizations under one E-network to support the decision-making process and prompt control of trade balance by implementing budget processes systematically and electronically. In this regard, the Operations Head of GFMIS Project affirmed that:

Existing accounting systems are stand-alone and not linked because they have defective and old programming language, and are not compatible with GFMIS requirements. The accountant cannot give accurate information to the programmer, and the programmer does not know the accounting information system. The defect does not exist in the inputs or outputs; rather, it exists in the programming of the system. However, the GFMIS is developed with a unified chart of accounts (COA) for all public organizations, which was used previously in 2008 through the preparation of the budget in accordance with ROB system. Notably, the COA originally existed before ROB system as a requirement of IMF, and it was

used under the name of unified accounting system. Since COA has ten classifications¹²³, it was translated and reflected in ROB accounts and, through GFMIS; it enables us to move easily in the decision-making process and strategic planning. It also includes a section for programs, subprograms, activities and projects. As in economic classification, the ROB through GFMIS provides funding details at the project level for capital expenditures. The allocation of funding by (sub) program can connect funding with the target results.

Before the implementation of GFMIS in JCO, there were continual negotiations between GFMIS project staff and JCO staff about the implementation process of GFMIS. Prior to this, the project management was provided with the required training courses within USAID-FRP II to implement the system and its adaptability with JCFS and ROB processes inside JCO. The implementation process was supported by JCO leadership (starting with a formal decision), sometimes having power over resources and meanings. This was clear from the Director General's dialogue in the workshop that was prepared to discuss the implementation process of GFMIS in JCO. Employees from JCO finance cadre and project team were invited to the training sessions. Accordingly, GFMIS was successfully coordinated and implemented (see figure 6.44). The interviewees of GFMIS project team described the implementation process of GFMIS in JCO as follows:

JCO successfully implemented GFMIS in early 2012; it was considered one of the exceptional organizations in the application of the system due to the support of top management and the desire for change by all employees. This success refers to their perspectives that the system standards and procedures are considered comprehensive standards that can serve the financial and accounting actions, and assist in linking with JCFS. JCO has dispensed with the old financial system that was in force and relied on GFMIS along with JCFS and their outputs. Perhaps the excellence of JCO and the success of the application stemmed from a positive organizational culture and prevailing institutions in the organization, in addition to the existing qualified and skilled employees who have shown full cooperation with the change.

Figure (6-44) The Main Screen of GFMIS System

(Source: GFMIS Project, Jordan)

¹²³ These ten classifications are economic, funding, organizational, general ledger, programs, functional, geographical, budget type, and one as reserve.

As a part of GFMIS, the cycle of the budget management system handles all the procedures related to General Budget preparation, planning and execution, starting from the Budget Preparation Circular up to the approval of the General Budget Law, issuing the special and general order, and performing financial transfers or allowances¹²⁴. As discussed by a number of interviewees in GBO and GFMIS project teams, the responsibility of budget analysts in GBO for this cycle is to follow up the execution and evaluation of the Organic Budget Law, and the budgets for the public organizations. Besides, they should follow up all processes to evaluate and manage capital projects by implementing the ROB system. The responsibility of JCO is to prepare and submit its budget electronically through GFMIS in accordance with ROB and Organic Budget Law. The ultimate goal of GFMIS is to improve the budget cycle by reinforcing the effectiveness of governmental performance and providing a quality service to the citizens. The Budget Department Head explained the impact of GFMIS on the budgetary practices as follows:

GFMIS contributed effectively in the development of a comprehensive approach to the preparation of the budget, while it works to facilitate the estimate process of expenditures and revenues in the JCO. This made it easy to prepare the JCO budget for the upcoming years based on actual spending data for the previous three years that are derived from a historical database in the system. In addition, the system supports the decentralization in preparing the budget, and activates the relation between JCO budget and its strategic plan. This leads to actual implementation of MFR, and supports methodology of ROB based on linking the spending with the accomplishment, especially in the management of capital projects. Budget preparation process is now faster and more precise than before, when the budget was done with Excel tables, which requires a lot of time and effort. There is no confusion in the work, especially when calculating the budget at the end of the year, as the system works to reduce the deviations in the budget estimates and at the level of each of its items; it unifies systematization and automatic preparation of draft budgets used in all public organizations. The system helped also to organize daily work by determining the powers and competencies for budget department head and staff. It is based on the principle of clarity of roles and distribution of tasks and responsibilities equally and logically. Furthermore, it has created clear channels of communication between supervisors and subordinates, which shapes a network of security when issuing financial documents.

The entire central ROB was prepared electronically for the first time through the GFMIS in 2011 using an integrated automated system (USAID 2012b). The implementation of the GFMIS as well as ROB has changed the culture of PFM, with more emphasis on MFR approach. This approach developed transparency and accountability for the purposes of resources allocation and the efficiency of their use. It is also useful for developing communications between the public management and citizens. GFMIS can thus easily provide relevant information on how the annual Budget Law and its execution can support the strategic priorities of the government. The common language to achieve MFR was the COA.

¹²⁴ Allowance or “virement” is the process of transferring appropriated funds from one line item to another during the budget year (USAID 2012a:44).

The COA is composed of different classification segments¹²⁵ that accumulate and report information in a systematic manner. The information classified by the COA is used for budgeting purposes, strategic planning, financial management and accounting control.

6.8.4. Management Control Process

The MFR approach recognizes accountability for results and performance measurements as advantages of a reinforced focus on results and increased managerial authority (i.e. control) (Moynihan 2006). An essential concomitant to the development of results-based accountability and performance is the removal or at least relaxation of bureaucratic and procedural controls over administrations. The idea is, in NPM-like-MFR, to shift from accountability for inputs (obeying the rules on spending and staffing) to accountability for outputs (performance indicators) (see Polidano 1999). The NPM doctrine called for an increased focus on results together with a decentralization of managerial control. Increasing managerial flexibility is equivalent to increased responsibility with authority. This in turn helped improve work productivity because better authority is required to enable accountability for performance - motivating managers - and to enable managers to develop existing processes - liberation managers (Moynihan 2006). Table (6.14) recognizes the change of focus of managerial authority towards the MFR approach.

Table (6-14) The Change of Focus of Managerial Authority toward MFR

	Low focus on results	High focus on results
High managerial authority		MFR model, managers have clear goals and have authority to achieve goals. Should facilitate manager attendance to program effectiveness, higher technical efficiency and results based accountability.
Low managerial authority	Bureaucratic systems, high focus on inputs and little incentive or authority to increase technical efficiency	

(Source: Moynihan, 2006:80)

Along with accountability for results, JCO works closely with MOF and GBO. On the one hand, the MOF exercises control over the implementation of the budget pursuant to the ‘State

¹²⁵ Each segment of the COA is managed by set of codes (groups) that gives information on the responsible agency, purpose, economic object, and so forth. Each group or each code within a group of the segment has a unique description, so that anyone recording transactions or reviewing reports will consistently understand the transactions included in each code.

Financial System’, which authorizes the ministry to control public organizations (including JCO), consisting of one employee or more of the MOF, tasked with following up on the application of ‘State Financial System’ and verifying whether expenditures are within the limits of funds allocated and that spending is dedicated to the purposes for which these funds were allocated or not, and ensuring the measurement of all KPIs (USAID 2012a). On the other hand, the GBO exercises control over the implementation of the budget in terms of the Organic Budget Law (for 2008)¹²⁶, which emphasizes the ROB system of allocating funds to programs based on the expected results of the expenditure and accountability for performance. However, GBO grants managerial authority for each public organization (as in JCO) to spend portions of the amounts allocated to them in the Annual Budget Law; such authorizations are generally granted for the whole fiscal year, but may sometimes be granted for shorter periods (e.g., monthly or quarterly) (*ibid.*).

According to interviewees of the Budget Department in JCO, JCO is authorized to execute budget resources and to spend funds within the limits of the approved budget, financial order, and liability document. It is charged with formulation and timely submission of annual budget requests and justification prepared in accordance with the requirements of the Budget Circular. At the same time, it has the technical capacities and information needed to create effective trade-offs among on-going programs and assess new policies and programs. It also has the right to appeal the budget decisions of MOF to the Cabinet. However, it is not permitted to submit budget requests directly to Parliament. As a result, it has less autonomy in its operations than independent public organizations. Notwithstanding, JCO manages its programs in accordance with delegated budget authority and approved budgets. Since it is responsible for the establishment of effective systems of planning and control, including the hiring and training of professionally proficient budget and financial management executives and staff (USAID 2012a), it must develop activities for improving operational efficiency.

As discussed earlier, teamwork and expert power led to employees’ empowerment by using peer pressures and internal self-discipline or accountability among organizational members, and replacing managerial control with peer pressures of teamwork (see Ezzamel et al. 1999).

¹²⁶ According to this law, GBD is tasked with:

“Allocating the financial appropriations to execute the country’s public policy according to the priorities to achieve the distribution of the development’s benefits and gains on all the Kingdom’s governorates”/ “Follow-up the performance evaluation of the departments and government units’ programs and projects to ensure achievement of the expected results efficiently and effectively to reach their goals” (USAID 2012a:51).

As a result, the processes of management accounting change occurred due to restructuring of the organization, decentralization of accounting functions, and usage of non-financial and financial measures to evaluate the performance of employees and the organization as a whole. The decentralization in the accounting tasks has increased management accounting's role in the management decisions and accounting change (see Innes and Mitchell 1990). In this regard, the Manager of Strategies and Institutional Development argued that:

New organizational structure of JCO helped to delegate the responsibilities of General Director to his assistants through a decentralized decision-making and delegation of authorities. It included increasing the number of assistants to the General Director from two to three assistants. One of them was responsible for Finance and Management affairs. It also helped to restructure and redistribute the number of directorates associated directly with the Director General between three assistants in order to facilitate the work and procedures, and speed up the decision-making. This in turn led to an increased focus on results in the work and accountability for performance.

Accordingly, the operating managers inside JCO have greater independence in the financial management of their resources; but at the same time, they are responsible and accountable for achieving financial targets that were determined previously in the strategic plan. As a result, they seem to have been transformed from bureaucrats and administrators into accountable and economically rational managers, who are empowered with delegated authority over their resources (Parker and Gould 2002; Nor-Aziah and Scapens 2007). Under the new budgeting systems (i.e. ROB, JCFS, and GFMIS), the operations managers became formally responsible for keeping their spending within the budget and accountable to the top management for any expenditure variances. Hence, management control¹²⁷ is an organizational subsystem located between strategic planning and operational controls (see Anthony 1965). While strategic planning systems develop strategies, operational control systems oversee day-to-day checks and balances to check that strategies are being pursued properly. Thus, a system of responsibility accounting for operations at the JCO was established (Nor-Aziah and Scapens 2007). However, the Budget Execution Officer pointed out that:

Although the ROB is based on accountability for results, actual accountability is still lacking some of its criteria. It must be activated to become a deterrent against misuse of resources.

Planning for Results can be successfully achieved by establishing and ensuring accountability for results by setting targets for performance, incorporating ways of checking progress, and providing guidance for on-going working and strategic plans and budgets, in addition to integrating meaningful KPIs with overall organizational strategies to bring about positive

¹²⁷ Management control is equivalent to accounting control; it is "the process by which managers ensure that resources are obtained and used effectively in the accomplishment of the organization's objectives" (Anthony 1965:17).

accounting change. In this regard, ROB and GFMIS can improve the planning process by providing a framework and information for assessing which programs are working and why, making managers accountable for achieving results, and helping communicate program achievements to management and individuals outside the program.

6.8.5. Performance Measurement Process

The performance measurement and evaluation system is the coherent extension of the MFR approach. Measurable and objective performance standards are to be developed for each employee, department and organization as a whole, and should be directly linked to the results expected through the MFR approach. Performance evaluation is the measurement of results achieved by each individual based on goals, outcomes and work products. If managed properly, leadership and managers can hold each employee, from the top of the organization to the front line, accountable for their contributions toward the achievement of results (DBM 2012). In doing so, JCO has focused on managerial reforms, which stressed performance by individuals and by strategic plans.

Strategic plans have developed KPIs as a way of measuring the progress made towards realizing declared objectives. The performance evaluation system aimed to measure the performance of individual staff as well as organizational objectives, even to the extent of defining the key contributions expected over the year, which are then compared with actual achievements at the end of the year. This can extend to rewarding or sanctioning staff according to progress towards objectives and results. Informal methods of appraisal were considered to be ineffective and leading to inferior organizational outcomes. There was a general aim to monitor and improve the progress of staff and plans for achieving objectives (see Hughes 1998). However, performance measurement involves more than indicators, as Holmes and Shand argued:

“a performance orientation is only marginally influenced by the existence of performance information”; rather “the need is for much greater attention to be given to changing the incentives in the institutional framework – the budget and personnel systems, the approach to control and risk management, etc. so that performance is encouraged, rewarded and required” (1995:563).

Since ROB is based on connecting budget with performance, it makes sense to compare the cost with the service or benefit. Efficiency KPIs are a way of demonstrating that public organizations are not wasting government revenue. GFMIS is a useful system for tracking the use of resources and calculating efficiency KPIs. Thus, JCO is held accountable for its KPIs

to MOF and GBO. Annually, JCO submits an evaluation of its actual results compared against the target levels for each KPI, along with its budget request. Performance evaluation is essential because it provides accountability for achieving results with the funding provided. The JCO in cooperation with GBO uses information on past performance to determine future performance target levels and future budget levels. This evaluation includes: the target performance levels compared against the actual performance levels; the expected funding levels at the time the targets were set compared against the actual funding levels; variance analysis between the targeted and actual performance, considering the lessons learned; and an analysis of what the results involve for future management or policy decisions (USAID 2012a).

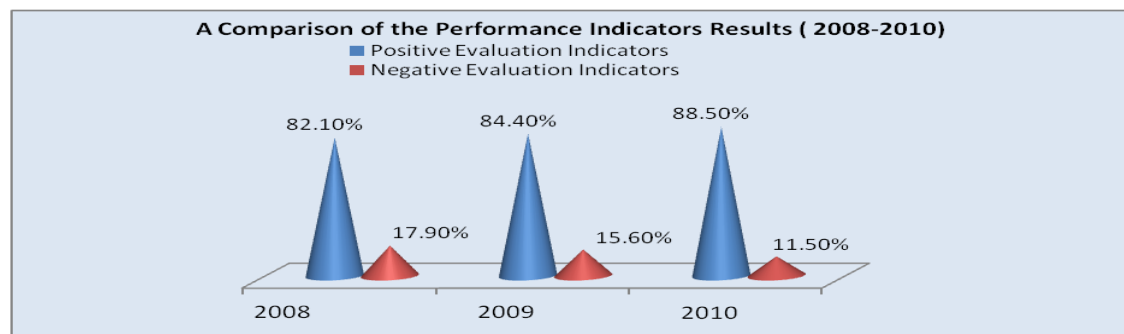
JCO thus uses two types of KPIs: Efficiency KPIs and Administrative KPIs. Efficiency KPIs are reflected in the strategic plan and Administrative KPIs are for administrative work (daily work) outputs by employees. Both types of KPIs have been developed by JCO in accordance with SMART¹²⁸ criteria for good performance targets (USAID 2012a). On the one hand, Efficiency KPIs focus on outputs or outcomes of strategic plan or program relative to the resources required to produce it. JCO measures the efficiency and effectiveness of its strategic plan annually by using positive KPIs (more than 50%) or negative KPIs (less than 50%). These efficiency KPIs track progress over time, which requires comparability of the results in one year with those in another year. The Strategic Planning Officer argued that:

Before starting to prepare a new strategic plan, we evaluate the previous plan through SMART KPIs developed in the execution plan. This execution plan follows up and evaluates the efficiency in achieving strategic objectives, programs and projects. Within this plan, we prepare the comparison between KPIs in this year with previous years, considering lessons learned and risks experienced. However, the overall percentage of achieved results was (88.5%) in 2010, compared with (84.4%) in 2009 (as set out in the figure 6.45).

¹²⁸ SMART acronym refers to the characteristics of good performance targets (the indicator and target level); and represents Specific, Measurable, Achievable, Relevant, and Time-bound.

Figure (6-45) The Outcomes of Efficiency KPIs in JCO Execution Plan for 2008-2010

Efficiency KPIs	2008		2009		2010	
	Number of Indicators	Percentage	Number of Indicators	Percentage	Number of Indicators	Percentage
Positive- KPIs	73	82.1%	81	84.4%	85	88.5%
Negative- KPIs	16	17.9%	15	15.6%	11	11.5%
Overall Percentage	89	100%	96	100%	96	100%
corrective actions or Lessons learned	17		15		11	
Risks experienced by the executive plan	3		4		4	



(Source: JCO Strategic Plan for 2011-2013:14)

Although the efficiency KPIs examines the outcomes of the strategic plan, they may not measure the quality of the work. They are important sources of information to assist in budget decision-making and to encourage JCO staff to think about ways of improving performance, but they are not the sole basis for budget decisions. In contrast, administrative KPIs can measure outputs of daily work. Everyone does something, and there are different ways of measuring what is done, even if the KPIs are not perfect measures. In this regard, the budgeting system sets specific financial targets translated into daily work to be achieved by the organization and its sub-units. The HR Officer explained the mechanism of using administrative KPIs to measure HR performance:

HR Directorate consists of two departments: HR Development and HR Affairs. The HR Development Dept. focuses on developing HR skills and experiences. The HR Affairs Dept. follows up and evaluates the performance of employees. The latter has created a system of administrative KPIs (performance standards) including all criteria of a good employee performance. Performance evaluation system of employees takes place every three months; it is connected with a rewards and sanctions system as well as a training gap. This system divides the performance into four categories: more than 90% is excellent; 75-90% is very good; 50-75% is good; and less than 50% is weak. According to this system, the employees are classified into four types: leadership, supervisory, executive, and supporting. The evaluation process is performed manually by those directly responsible. As a result of technological change, the same process is now prepared on Mena-HR system, which is connected with JCFS to be reflected directly in the salaries and rewards of the employees (see figure 6.46).

Figure (6-46) Performance Evaluation Process Based on Mena-HR system

The screenshot displays the Mena-HR system interface for performance evaluation. It features a top navigation bar with tabs for 'معايير الأداء' (Performance Standards), 'معايير القدرات' (Performance Standards), 'معايير النتائج' (Performance Standards), 'معايير الأهداف' (Performance Standards), 'معايير الإدارة' (Performance Standards), 'معايير الإدارة بالإنجاز' (Performance Standards), 'معايير الإدارة بالإنجاز' (Performance Standards), and 'معايير الإدارة بالإنجاز' (Performance Standards). The main area contains a form for 'وصف معيار الأداء' (Performance Standard Description) and 'وصف معيار القدرات' (Performance Standard Description). The bottom section shows a summary table with columns for 'مؤشر الأداء' (Performance Indicator), 'القيمة' (Value), and 'الدرجة' (Grade).

مؤشر الأداء	القيمة	الدرجة
مؤشر الأداء 1	7.25,000	7.25,000
مؤشر الأداء 2	7.25,000	7.25,000
مؤشر الأداء 3	7.25,000	7.25,000
مؤشر الأداء 4	7.25,000	7.25,000
مؤشر الأداء 5	7.25,000	7.25,000
مؤشر الأداء 6	7.25,000	7.25,000
مؤشر الأداء 7	7.25,000	7.25,000
مؤشر الأداء 8	7.25,000	7.25,000
مؤشر الأداء 9	7.25,000	7.25,000
مؤشر الأداء 10	7.25,000	7.25,000

(Source: Mena-HR System, JCO)

Consequently, JCO motivates its employees to perform their duties in consistency with organizational objectives. The employees have their own goals that are not necessarily congruent with the organizational objectives. Hence, performance measures are extremely significant because rewards are generally based on them (McWatters *et al.* 2008). Both efficiency and administrative KPI's play an important role in achieving the organizational objectives. These measures formally or informally provide analytic techniques (e.g. cost-benefit analysis) required to make informed decisions. The institutionalization of evaluation and audit functions may be seen as a key element of good governance (Lavergne and Branch 2002) and reporting process.

6.8.6. Reporting and Decision-Making Process

MFR is an approach to keep the JCO focused on its mission and objectives, and to integrate performance information into decision-making, management and reporting. It can be represented as a 'life cycle' where 'results' are central to planning, budgeting implementation,

monitoring and evaluation, reporting and on-going decision-making (UNDG 2010). By focusing on ‘results’ instead of ‘activities’, it assists JCO to better articulate its vision and support for targeted results and to monitor the progress using KPIs, targets and baselines. Results-based reports help the JCO and its stakeholders as well as donors to understand the impact that a given program or project is having on the trade facilitation and public services (*ibid.*).

Results-based reporting is one of the main challenges of reporting on achieved results. It seeks to shift attention away from activities to communicating significant results that the program or project has achieved at the organizational output and outcome levels (UNDG 2010). The decision-making and reporting process usually takes place after a series of organizational actions such as setting strategic objectives, keeping objectives in mind while allocating resources, managing programs to achieve results, measuring performance, and reporting results. These actions help the organization to determine its progress towards its desired ends (OCA 2002). As reported by the JCO correspondent, the information on performance in JCO is used frequently to inform (report) planning, budgeting, and managing decisions. The Revenues Projection Officer further indicated the reporting process for purposes of decision-making as follows:

There are various reports issued by the budget department through automated systems, which are prepared manually. For example, ASYCUDA can give you a number of reports according to account type, date, report type, revenue type, etc.; the most important is the Monthly General Revenue Report to Finance Minister. Other types of reports are issued through GFMIS and JCFS, relating to ROB process, capital projects, programs, outputs, expenditures, etc. As a result of the large number of reports, JCO has established a business intelligence (BI) system in 2010 to benefit from these reports and to inform the decision-making process. BI system is connected with all customs systems (JCFS, GFMIS, technical systems, statistical systems, etc.); hence it can read from these systems and make the required report in relation to the needs of decision-makers, such as financial reports for CFO or Budget Head. However, the template of these reports was designed previously by employees in terms of form, date, and purpose. These reports also serve decision-makers from the top management to the bottom line, as well as external parties.

As stated above, Reporting for Results is linked to the State budget process and managerial decision-making. Therefore, GBO and MOF ask JCO to submit along with its annual budget requests its overall mission, vision, key objectives and SMART KPIs, as well as objectives and KPIs of every program. In the light of the GBO and MOF directions, the components of JCO’s strategic plan are included in the budget statement published annually by JCO to introduce the regular management reports on expenditure, revenue, capital projects, programs, and the percentages of completion. JCO further uses this information to publish the strategic

plan, annual report, execution plan, and satisfaction surveys to stakeholders through the website, newspapers, and television.

Management accounting systems, ROB, JCFS and GFMIS, have the potential to improve budgetary decision-making and reporting. They help to develop the policy-making and support policy-makers by connecting capabilities and work (tasks, processes, actions) with objectives. A great benefit of these systems is the computerized and automated accounting reports, which eliminate much of the drudgery of manual reporting and substantially improve the accuracy and efficiency, allowing budget actors to focus on analysis of the data and strategic planning, to inform and improve future decision-making (*ibid.*). Thus, through these systems, JCO publishes high-quality reports on its financial plans, operational results, financial condition and service performance. They also provide comprehensive information on actual and planned revenues and expenditures for every program or project in the JCO.

It is evident from the above discussion that, in the reporting and decision-making process, the JCO has enhanced opportunities for improvements through MFR implementation, as most management accounting systems for strategic planning, budgeting, controlling, evaluation, and reporting have become more results-based. It is hoped that the process of implementation will further lead to greater learning, change and decision-making. This on-going process of management accounting change seeks to make JCO accounting systems and practices more responsive to the environment in which they operate.

6.9. The Interplay between Management Accounting and Organizational Change.

The processes of management accounting and organizational change are inextricably linked; each of them lead to the other. The interaction process between organizational configurations (i.e. structure, strategy, culture, IT and leadership) and management accounting systems helps in identifying and recognizing the dynamics that have been manifested between them. The relationships between the change dynamics at the organizational level and management accounting dynamics at the inherent organizational and accounting levels are both recursive and have two-way, with the two concepts inextricably interwoven (see Kloot 1997). In this regard, the MFR approach was shorthand for management accounting change that reflected a radical and evolutionary change in the organizational and accounting culture of JCO across the government. Thus, JCO, like other public organizations, has continually achieved

‘external adaption’ and ‘internal integration’ by developing operating processes, customs procedures re-engineering, and implementation of new MFR mechanisms. JCO has also identified strategic priorities, which have enhanced stakeholders’ satisfaction, and high-quality services and trade facilitation which enabled it to maintain its institutional stability and legitimacy.

Organizational change, in response to environmental change, is a clear force facing both private and public organizations. JCO is a complex organization; it works in a dynamic, variable environment, and faces rapid technology obsolescence. The roles and responsibilities of JCO are large and wide in comparison with its strategic objectives and mission. In response to the reinvention of government, JCO has moved forward to be more mission-driven, customer-focused, result-oriented and decentralized to match the needs of stakeholders. To adapt to the external environment, JCO has launched a number of initiatives at organizational level, including reorganization of its structure, redesign of internal and external processes, different innovative strategies, and systems focusing on MFR (see Ababneh 2008). In JCO, down-sizing, a flatter structure and re-engineering focused on customs processes and supply chain analysis are all responses to environmental turbulence. Management accounting systems are closely coupled to organizational configurations (Kloot 1997). The introduction of management accounting change has led to a change in organizational structure, or vice versa, such as budgeting and planning systems.

At the same time, organizational restructuring has also contributed to decentralization and delegation, which has led to the distribution of tasks and specialization in work. This has helped to develop the customs work in different organizational aspects including management accounting. JCO is also continuously following up changes in national objectives, changing its strategic objectives, plans and mission accordingly. Any change in organizational strategy and objectives, in turn, creates new projects in accounting and information technology systems as well as for accounting and IT specialists. Organizational change, in response to external pressures, is also identified as organizational learning (Argyris 1982). Organizational learning, which is crucial for any organisation’s survival, can be either adaptive (not involving paradigmatic change) or generative (moving to new forms and structures) (Kloot 1997). The leadership of JCO played an active role in this regard; its role was clearly manifested in the support of development and technological projects.

Management accounting systems may facilitate or delay organizational change. They can play a significant role in ensuring that the organization learns in response to change. In JCO, the proactive role of management accounting systems in organizational change has been fully described. Accounting and technological changes have become the prevailing culture among JCO members. The new technological culture and the pursuit of excellence and beyond have stimulated accounting change by highlighting the delays inherent in existing accounting systems. Management accounting and organizational change interacted to create new accounting systems, ROB, JCFS and GFMIS, which have changed the existing institutions and norms. Management accounting systems have reconsidered the existing routines in shaping new organizational strategies and their KPIs (Hopwood 1987). Developing strategies and strategic plans for JCO are part of the managing-for-results process. Strategic planning takes place at organizational level, determining the objectives of the JCO and the resources required to achieve those objectives. Management accounting control is used to ensure that resources are allocated efficiently and effectively in achieving the organizational objectives.

Organizational learning requires that structures and strategies be uncoupled from existing ideas and re-coupled to new ones (Greenwood and Hinings 1996). JCO has changed its structure and operations with the introduction of new information systems, i.e. the ASYCUDA system, and changed management accounting systems with the implementation of MFR approach (Quattrone and Hopper 2001). Management accounting systems have facilitated the flow of information necessary to introduce organizational change (Cobb et al. 1995). Now the budgetary systems can perceive an organization's lack of fit with its environment and propose new possibilities for action (Horngren *et al.* 2000). Nowadays, these systems are used by managers to assist them in performing all of the managerial functions of planning, performance measures, accountability, decision-making, coordinating, communicating objectives, providing feedback and integrating activities within JCO, indicating the broad nature of MFR, which is not restricted to budgeting systems (Kloot 1997). In addition, management accountants can enhance focus and improve organizational change when they are empowered to design KPIs (Shields and Young 1992). This follows from the newly-created role that management accounting has played in measuring managerial and organizational performance (Chenhall and Langfield-Smith 1998)

Management accounting change thus rarely takes place in a vacuum. Management accounting is an integral part of an organizational strategy and implementation efforts to create value for

stakeholders. An organization's strategy and its management accounting system are dynamic. Successful organizations are those that adapt quickly to changing stakeholders, global competition, political events, and rapid technological change (McWatters *et al.* 2008). An organizational strategy, based on a dynamic environment and internal strengths and weaknesses, represents a strategic plan for achieving stakeholders' and organizational value. The organizational strategy is composed of the control mechanisms that motivate individuals within the organization to work in consistency with the selected strategy, including assignment of responsibilities, performance measurement, and rewards. The role of management accounting is to facilitate control through the organizational structure and in making planning decisions. Management accounting plays an integral role in the organizational structure by assigning responsibilities through the budgeting process and by providing managerial and efficiency KPIs. It also recognizes the costs and benefits of different planning decisions, permitting managers to make choices that increase organizational value (*ibid.*).

6.10. Conclusions

This chapter showed that JCO is a complex organization responsible for implementing a wide range of management policies, often on behalf of other public organizations. JCO has played a significant role not only in meeting the objectives of the government but also in implementing effective and efficient controls, thus ensuring compliance with the national laws and international agreements. The roles and functions of JCO have changed with the ever-changing domestic and international environment. Accordingly, JCO faced various external pressures to modernize and change, to improve overall performance and service delivery and to increase accountability to its stakeholders (Guthrie and English 1997). This is reflective of the changing environment in which JCO has been operating and the corresponding changes in government priorities. As a result of its role in the national economy and international trade, JCO has changed its strategy, structure, procedures and systems in response to external pressures and has implemented new management accounting systems, especially budgeting systems, through the introduction of the MFR approach by the government. In addition, management accounting change in JCO was enacted as part of the financial management reforms. On the other hand, international bodies including WTO and WCO responded to JCO initiatives through its compliance with international standards that recognized trade facilitation and simplified customs procedures.

Budgetary reforms in JCO (i.e. ROB, JCFS, and GFMIS) were closely associated with the national reform agenda under the umbrella of NPM reforms. Therefore, management accounting systems were able to measure the efficiency and effectiveness of the public financial management. The MFR approach, as a key part of NPM, was a response by JCO to external factors such as economic pressures, especially budgetary stress, and internal dissatisfaction with traditional, hierarchical, input-oriented practices (see Ter Bogt 2008). Hence, management accounting systems influenced the perception of the JCO employees, and generated organizational learning in response to perceived changes in the environment. They also affected the understanding of what those changes signified, how and what solutions might be generated, and a perception of whether the time had come to uncouple the organization from old structures and business processes to move to new structures and processes. At the same time, as the organization learns and changes, it may change its structures and its accounting systems to accommodate the changes (see Kloot 1997).

The findings confirm that a change in organizational culture has an essential impact on management accounting change, which has played a central role in the desire to initiate such changes and in the acceptance of such changes by the organizational members. Similarly, the ICT created a new culture that was considered a solid platform to introduce new accounting systems by enhancing the trust between IT staff and management accountants, in addition to their trust in themselves to accept the change. All of these factors (i.e. drivers of change) interacted to create new accounting practices, such as the implementation of the ASYCUDA World system accompanied by business processes re-engineering. Such ICT systems have implications for financial and management accounting practices. The relationship between accounting practices (routines) and systems (rules) is recursive. Accounting routines were written and developed in the form of accounting rules to avoid a loss of knowledge and facilitate the training of new staff (e.g. JCFS) on the one hand, while accounting rules led to the emergence of new accounting routines in tandem with new systems (e.g. budget manual and COA) on the other (Burns and Scapens 2000). However, such change met with some resistance, largely represented by mental allegiance to old systems and vested interests. This resistance was resolved by the gradual use of various mechanisms such as leadership support, training and rewards, actual application and, finally, the exercise of power.

Some selective adoption of accounting practices that were considered consistent with the 'MFR' approach, such as the emphasis on TQM, KAA excellence Model and stakeholders'

satisfaction, was manifested in the recent attempt by the JCO to reconcile this process with the trade facilitation reform component. This in fact strengthened the dominant position of the 'MFR' process at the expense of process-orientated management practices and emphasized the path-dependent and evolutionary nature of change (see Modell *et al.* 2007). Moreover, the decentralized organizational structure has also led to a focus largely on the development of MFR, which involved strategic planning, budgeting for results, controlling and reporting for results, and all financial and non-financial KPIs. The aim was to improve the JCO mission and vision in terms of its performance, and to increase efficiency, transparency and public accountability in achieving its objectives. As a result, the introduction of the MFR approach and NPM-like management accounting changes was regarded as an essential change in the budgeting systems of JCO, which included all resources that management needed to have at its disposal in order to control and manage the organization while striving to ensure its continuity and legitimacy (Otley 1980; Ter Bogt 2008). Consequently, the implementation of budgeting systems successfully fulfilled the requirements for modernization in the JCO, through the reorganization of the customs structure, processes, and administration, and its integration into the government. Chapter Seven analyzes and discusses the dynamics of management accounting change in terms of intentions and processes infused by the institutional 'contextual' framework in the JCO.

CHAPTER SEVEN: CASE DISCUSSION AND CONCLUSIONS

7.1. Introduction

The main aim of this study is to explain the processes of MAC in the JCO as influenced by NPM reforms and institutional pressures. A brief review of previous chapters shows that each chapter has discussed a different theme to examine the aim of the study. For instance, in Chapter 2, various theoretical approaches have been developed (Caccia and Steccolini 2006; Moll *et al.* 2006) to explain processes of MAC within organizations and society. Chapter 3 argued how better explanations could be made by integrating the institutional and structuration theories to develop a new institutional framework. The institutional ‘contextual’ framework draws on theoretical integration and synthesis (NIS, OIE, and power theory), which may give both the researcher and reader a better understanding of institutions, accounting practices and change processes (Dillard *et al.* 2004). With the intention of applying this framework, an appropriate methodology and research methods were selected in Chapter 4. Chapter 5 described the dynamics of reforms and related changes in the Jordanian context, and also described how institutional pressures and the influence of consultants were significant in JCO decision-making when embarking on management accounting changes. In Chapter 6, the results of the JCO case-study have been discussed by focusing on the dynamics of MAC.

All of these configurations are directly linked to the goal of providing empirically structured answers to the following research questions: (1) *‘What were the institutional pressures (powers) that affected the emergence and diffusion of management accounting systems?’*; *‘How did they interact through three levels of institutional analysis?’*; (2) *‘How have processes of management accounting systems, particularly budgeting systems, been implemented and changed within JCO?’*; and (3) *‘How have the dynamics of organizational change and ICT affected management accounting change?’*. Finally this chapter examines these questions theoretically and provides a theoretical analysis and discussion inspired by the institutional ‘contextual’ framework developed in Chapter Three. The ultimate goal of this chapter is to explain the processes of change (emergence, diffusion and implementation) of budgeting systems (ROB, JCFS, and GFMIS) as influenced by NPM reforms and institutional theory. Accordingly, this chapter has been organized as follows. Section (7.2) explains the theoretical strands in terms of intentions and processes of MAC, and distinguishes between NPM and institutional theory; this is followed by Section (7.3), which discusses the processes

of management accounting change induced by NPM intentions. The next section (7.4) presents the analysis and discussion of the JCO case-study infused by the institutional framework at three levels of institutional analysis: political and economic levels (external institutions), organizational field level (institutional isomorphism) and organizational level (internal institutions). The remaining sections introduce the main findings of the study, research limitations and avenues for future research.

7.2. Theoretical Strands

Management accounting is viewed as a product of its environment, and is socially constructed. As Cooke and Wallace (1990) assert, “the accounting objectives, standards, policies, and techniques result from the environmental as well as organizational factors in each country”. Accordingly, accounting scholarship is undergoing a reconceptualization, partly as a result of the empirical failure of neoclassical economic theory, agency theory and contingency theory to provide rationales for developing management accounting systems and practices (Richardson 1987). Thus, accounting scholars are being asked to refocus their efforts on a better understanding of how accounting influences, and/or is influenced by, a “multiplicity of agents, agencies, institutions and processes” (Miller 1994:1; Dillard *et al.* 2004).

Likewise, this study distinguishes between two significant theoretical strands of this debate in the public sector, in terms of intentions and processes of changes or reforms. NPM proponents can be viewed as intent on making fundamental changes to organizational structures, processes and practices in the public sector. In terms of processes of such reforms, one alternative theoretical framework, ‘institutional theory’, has been deployed to explain their impact on management accounting change. Management accounting studies of the public sector have explained the processes of NPM reforms by adopting an institutional perspective to reveal the use of accounting practices as legitimating imperatives (see, Seal 1999; Lapsley and Pallot 2000; Modell 2001; Jackson and Lapsley 2003; Seal 2003; Clarke and Lapsley 2004; Lapsley and Wright 2004; Caccia and Steccolini 2006; Modell and Grönlund 2007; Modell 2009).

NPM reforms can be considered ostensibly as a functionalist approach, in that one of the most significant intentions of the changes is to achieve increased economic efficiency and effectiveness in public organizations (Ter Bogt 2008). A functionalist approach to

organizations assumes that organizations, and the individuals within them, rationally select the intention to achieve their objectives. Specifically, a functionalist and rational approach assumes that, with the intention of ensuring an organization's continuity, its choices and decisions should be based on considerations such as improvements in economic efficiency and effectiveness (March and Olsen 1989; Covalleski *et al.* 1996). However, many authors have proposed that other factors, beyond economic ones, may play an influential role in the implementation of management accounting changes in both private and public organizations (Meyer and Rowan 1977; Greenwood and Hinings 1996; Burns and Scapens 2000; Scapens 2006; Ter Bogt 2008; Chapman *et al.* 2009).

To understand management accounting changes and their influences in JCO, it may be beneficial to study them with an open mind and, as recommended by Hopwood and Miller (1994), avoid being overly restricted by a narrow theoretical point of departure. Therefore, this study mainly explains management accounting change from institutional perspectives following an interpretive approach, and hence creates the possibility of focusing on the different potential reasons and pressures for introducing the new system, on the change processes, and on the influences of the changes. An institutional 'contextual framework' in this study takes into consideration both external and internal pressures, such as political, economic, historical, social and cultural dimensions, in the analysis of organizations and change processes (Greenwood and Hinings 1996; Ter Bogt 2008). Scapens (1994:303) argued that a lot of emphasis on an 'idealized' picture might narrow the view of aspects of organizations where relevant changes have taken place. He further assumed that, to gain a holistic picture of the effects that specific changes have had in practice, it may be important to obtain theoretical knowledge of the working methods that have changed.

The contextual framework can thus provide a holistic representation as well as interpretation of the processes of change by focusing attention on the underlying institutions that encode accounting systems or practices at three levels: political and economic level, the organizational field level, and the organizational level. Examining the dynamics between institutionalized beliefs and values that may occur between these three levels of institutions enhances the understanding of management accounting change in public organizations and provides further information about NPM initiatives, especially the MFR approach. Hence, in order to advance and develop the field of public sector management accounting, this study improves the understanding of the role of management accounting in public organizations.

7.3. Management Accounting Change Induced by NPM Intentions

NPM ideas are influential and are considered an immediate response to common pressures, such as public antagonism to government services, shrinking budgets, performance-based accountability, and the imperatives of globalization (Sulle 2011). One intention of the NPM-inspired reforms is the adoption of MFR approach. MFR approach requires the government to focus on the performance outputs/outcomes of its organizations rather than their administrative processes. This new approach has been enthusiastically embraced by many countries including Jordan following the rise of NPM doctrine. The NPM doctrine suggests that improving the performance of public services requires a focus on results while providing public managers with greater power over their fiscal and human resources management. In addition, this reform agenda requires political leaders to set out performance objectives and results, use KPIs and strategic planning, determine the level of resources to be used and delegate implementation tasks to low-level administrative managers (Polidano 1999; Sulle 2011). The MFR approach is clearly related to the NPM reform movement that began initially in the Western countries. However, in recent years a number of developing countries including Jordan have also adopted this approach as a “management accounting tool” to restructure and improve the performance of their public sector organizations. In Jordan, the recent public sector and fiscal reforms also embraced this accounting and management approach (Try and Radnor 2007; Hudock 2011; Sulle 2011).

Until the year 2005, the financial management of Jordanian local government, like that of local government in many other developing countries, was traditionally highly input and process-oriented. Public organizations were controlled by means of financial budgets and administrative procedures. Subsequently, the Jordanian government introduced the National Agenda, which addressed political and economic reforms including public sector and fiscal reforms initiatives through which management accounting operates. This has led to transformations from the bureaucratic management approach towards the MFR approach, which is promoting organizational reforms and economic scope, underlying the doctrine of the NPM in the public sector. A radical change in governmental culture has taken place, but such change is not without cost. The adoption of MFR approach as well as private sector management approaches was at the core of the innovations in local government in the 2000s including the ROB system, GFMIS system, strategic planning and KPIs. These changes were brought about by budgetary deficits in the last decade, criticisms in society of the tasks and

functioning of government, and dissatisfaction in public organizations with centralized organizational structures and input-oriented forms of control (ter Bogt and Van Helden 2005).

In 2008, a change in the State Budget law obliged the public organizations to introduce a new budgeting system based on results and modified cash basis. Thus, JCO and other public organizations have had to apply the ROB system since 2008. In the preceding years, these organizations had already gradually started to implement changes to the traditional cash-budgeting system. Spurred on by changes in, for example, political and economic appreciation of government tasks and budget cuts in the 1980s and 1990s, a lot of public organizations introduced TQM system and excellence models of the performance system. These systems were supposed to contain all kinds of information on government performance and helped to produce gradual change in the government culture. Another initiative that became very popular among public organizations was the GFMIS system, which started in 2010 with very high expectations in regard to the management of public funds. The adoption of this reform strategy has been partly based on the inspiration for such NPM reforms in Jordan. The role of international donors such as the World Bank, USAID, IMF, and their consultants in encouraging public organizations to adopt the MFR approach has been clearly recognized throughout institutionalization processes.

MFR approach obliged the Jordanian government to move away from an administrative culture of compliance, error avoidance, rigid rules and procedures, and presumed inefficiency to a more efficient and effective management accounting system. It has required multiple changes to the existing public management accounting systems that, for some years, were based on the bureaucratic approach (Norman and Gregory 2003). The Jordanian government is thus orientated to maintaining the rules and regulations for financial and management accounting in conformity with international accounting practices. First, the reforms sought to introduce a new role for central ministries - that of being strategic leaders - while the task of implementing policies is delegated to public organizations including JCO, a process that can be described as the delegation of public service management. This distribution of work between central ministries and their executive organizations entailed decentralization. Following this distribution of roles and responsibilities, a further important element in the implementation of the MFR approach is the identification and definition of objectives and indicators of expected performance results, and linking them with national objectives

(Proeller 2007). The political leadership (Cabinet)¹²⁹ must formulate clear performance goals and targets to be achieved, and give subordinate bodies some leeway and discretion in achieving these goals. Goals are to be defined in measurable terms that will allow a comparison of ex-post performance with ex-ante targets (Lægreid et al. 2006). In addition, the government is obliged to provide sufficient resources for public organizations to accomplish their responsibilities (Tiili 2007; Sulle 2011).

The MFR approach in Jordan can be regarded as a management accounting process consisting of interrelated subsystems (Verhoest *et al.* 2004): strategic planning system (determining objectives for organization), budgeting system (allocating resources in accordance with determined objectives), a monitoring system (measuring results of organizational performance) and, finally, an evaluation and feedback system (where accountability, sanctions and rewards are applied). As Lægreid *et al.* (2006) propose, the emphasis should be on planning and the measurement of performance results. Besides, central ministries must use information on reported results to reward good performance and penalize weak performance. The core of the MFR approach is to secure greater efficiency and legitimacy in the public organizations, giving them greater freedom to allocate resources while holding them accountable for results (Norman and Gregory 2003). As a management accounting tool, MFR approach is therefore a double-edged sword. It advocates both centralization and decentralization of public financial management (Christensen and Lægreid 2007). The rationale is that public managers will need some freedom to allocate resources in pursuit of their organizational objectives. At the same time, budgeting for results should be discarded in favour of a central ROB system and competencies for resources management should be delegated to the organizations (Moynihan 2005; Proeller 2007).

Consequently, MFR approach, KPIs, strategic planning, ROB system, and GFMIS are all closely related. In fact, the budgeting system seems to be the overarching practice that plays a significant part in the introduction of all these accounting changes. It will be discussed separately in the following section because it is closely connected with the ‘technical’ aspects of management accounting changes, with changes in other aspects of the management of an organization, such as ICT, organizational culture and learning, and also with the evaluation and control activities of managers. These changes are formally intended to make political and

¹²⁹ This, of course, has been most difficult due to the constant changes in the Jordanian government and the Cabinet.

administrative decision-making more transparent and effective, and to bridge the apparent gap between authorities and citizens (Ter Bogt 2008). MFR focuses on achieving results that matter most to the people of Jordan in terms of improving the economic conditions, wellbeing and quality of life of the country. In actual practice, the main objectives of MFR are to rationalize and institutionalize day-to-day management, to make public organizations more 'businesslike', and to increase efficiency and effectiveness. However, the basic characteristics of NPM differ from country to country and have developed over the course of time (Osborne and McLaughlin 2002; Ter Bogt 2008; Pollitt and Bouckaert 2011). Unsurprisingly, many external pressures affect outcomes at this level, and stakeholders outside government have influenced and in some cases fulfilled the responsibility for achieving the outcome.

In doing so, MFR approach considers these external influences and takes a strategic approach when defining objectives and establishing respective roles and responsibilities for each objective's accomplishment during the planning stage. By establishing clarity of roles and responsibilities, MFR approach is better positioned to accomplish its responsibilities of measuring the progress of government and other key actors toward attaining the goal. It also maintains its focus on objectives through each phase of a results management cycle of planning, budgeting, management and evaluation to ensure that the desired results established in planning are actually achieved. Thus, the planning stage is where objectives are established, government's role is clarified, goal achievement measures are established, and targets or objectives for future achievement are set (Marshall 2012).

During the budget process, budget decision-makers set priorities and consider alternative programs for value for money in achieving desired results; ultimately, decision-makers choose which programs they will fund. The management phase emphasizes allocating responsibility for results achievement, managing work processes, and monitoring performance with the intention of continuously improving results. During the evaluation phase, the actual and reported achievements are compared against planned performance. Both the achievements of a program and the program's impact on improving intended conditions are evaluated, and the lessons learned are applied to strengthen programs and refine strategy in the next planning phase (Marshall 2012).

From the above discussion, it appears that NPM, just like MFR, strongly focuses on rational management and economic efficiency and effectiveness of public organizations. MFR focuses

particularly on the development of output-oriented planning and control, which involves the use of ROB system and GFMIS, interim and annual reports and KPIs, all of which contain financial and non-financial performance information. It was intended to improve the JCO's insight into its performance to increase efficiency, transparency and public accountability. Along with MFR, JCO, like other public organizations, introduced a decentralized organizational structure because of growing dissatisfaction, both externally and internally, with the traditionally centralized, inflexible and bureaucratic structure, in addition to considerable increases in tasks, size and budget.

NPM reforms have been characterized by an increasing emphasis on decentralized performance management, notably epitomized by a transition from heavy reliance on centralized planning and 'management by objectives' to 'MFR' as the dominant mode of governance and control. 'Management by Results' is more efficient than 'management by objectives'. Thus, 'management by results' can be developed through the use of post-mechanistic systems, such as TQM and ROB systems, instead of mechanistic systems. These reforms paralleled endeavors to clarify the boundaries between policy-making, service delivery and the executive role of central government. An important means to this end was to specify and hold public organizations accountable for results rather than using less composite measures of inputs and operating processes in further devolution (McCulloch and Ball 1992; Carter and Greer 1993; Bromwich and Lapsley 1997; Modell et al. 2007). The public organizations that implemented reforms probably considered some of the changes to be a success. In other cases, NPM reforms were dropped after a while, often tacitly, perhaps because they were superseded by new developments or were harder to introduce or use than was originally expected (Ter Bogt 2008).

The NPM literature-inspired functional approach often proposes that the most significant reason for changing the management accounting of public organizations is to increase economic efficiency and effectiveness. As mentioned earlier, not all scholars are convinced that MAC is primarily intended only to increase economic efficiency and effectiveness. They affirm that, for example, expectations and values both inside and outside organizations, and rules in society can also play an important role in a decision to introduce management accounting changes. Institutional theory highlights the influence that structures in society and the socio-economic and political aspects of an organization's environment – such as the rules, routines, institutions, power, and habits in a particular group or society – and their change

have on an organization, and vice versa. Unlike functionalist theories (such as NPM doctrine), institutional theory extends the range of aspects of an organization (i.e. economic and non-economic aspects) and its environment that have to be considered (Oliver 1991; Covalleski et al. 1996; Greenwood and Hinings 1996; Chenhall 2003; Scott 2005; Ter Bogt 2008). Considering this call, this study developed a new contextual framework, which is used here to elucidate the processes of MAC at multi-levels of institutionalization.

7.4. Management Accounting Change Inspired by Contextual Framework

MAC is seen as a complex and continuous process; consequently, a contextual approach is essential to study the processes of MAC to tease out the complex features of the processes of change and explore the significance of power and politics in the organizational context. Since various theoretical perspectives are useful for understanding organizational phenomena and as no single theory (Fligstein 1993), is fully capable of interpreting social complexity, "a pluralistic, multi-institutional approach promises much more" (Burns 2001:34). Institutional theory is concerned with the deeper and more flexible aspects of social structure, as it emphasizes the processes by which structures, including schemas, rules, norms and routines, become launched as authoritative procedures for social behavior (Scott 2004). It inquiries into how these aspects emerge, how they are diffused, adopted and adapted over space and time, and how they fall into decline and disuse (*ibid.*). Organizational structure as an adaptive vehicle can emerge in response to the characteristics and obligations of participants as well as to influences and pressures from the external environment. Hence, institutionalization here refers to this adaptive process: "in what is perhaps its most significant meaning, 'to institutionalize' is to infuse with value beyond the technical requirements of the task at hand" (Selznick 1957:17).

Institutional theories, in particular NIS and OIE, have been prominent in extending the study of management accounting change to include social and institutional dimensions of organizations and their environment (Hopper and Major 2007). Institutional theory recognizes that, rather than a single variable, there are several variants that can influence the processes of organizational change (Scott 1987). Institutionalists conceive of management accounting as a routine, and a potentially institutionalized, organizational change is processual in nature (Burns and Scapens 2000). Institutional theory highlights the relationships established between major political and economic aspects in a social context, such as symbols, institutions, beliefs, values and cognitive systems, and the organizations and individuals that

operate within this social context. These aspects often achieve an institutionalized status in the sense that they reflect the generally accepted structures of reality and tend to be taken for granted as legitimate (Wanderley *et al.* 2011). As a result, institutional theory assumes that human behavior and the social system are both radically shaping and shaped by the institutions. The core assumptions of institutional theories (NIS and OIE) are concerned with how institutions shape the actions of individuals and how new rules and institutions may emerge (Burns and Scapens 2000).

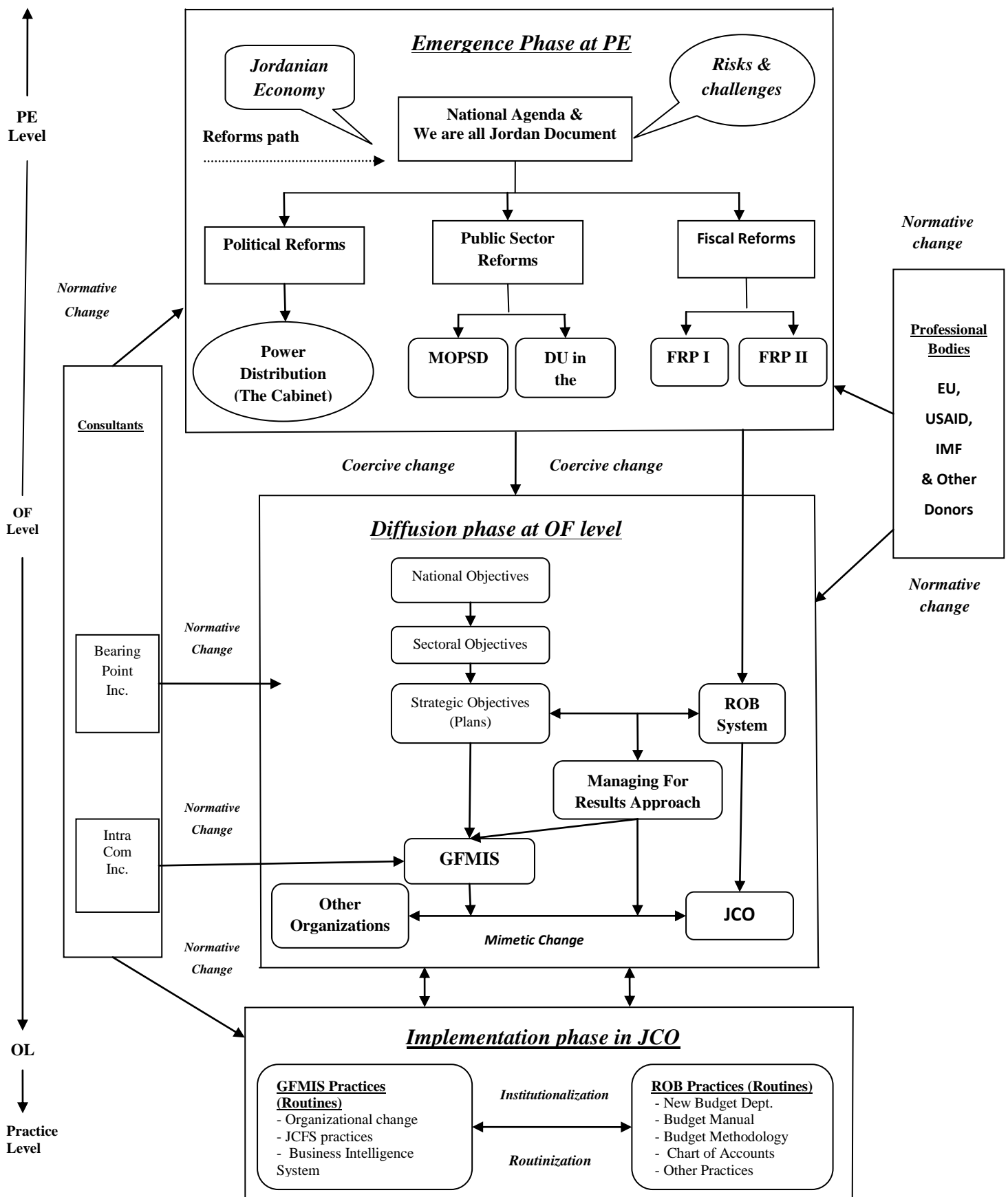
Extending these ideas, the integration process between OIE and NIS is made possible by using Dillard *et al.*'s (2004) framework, which combines OIE and NIS. Hence, it is important to realize the interaction between extra- and intra-organizational factors in the process of management accounting change. However, Dillard *et al.*'s (2004) framework can be developed by improving the analysis of the influence of intra-organizational processes, such as how new accounting systems emerge. To avoid this limitation, Burns and Scapens' (2000) framework has been integrated with Dillard *et al.*'s (2004) model. The rationale for this is that Burns and Scapens' (2000) framework presents a more comprehensive and in-depth interpretation of the process of institutionalization of new MAPs at the organizational level than Dillard *et al.*'s (2004) framework. The theoretical 'contextual' framework developed in this study combines three different frameworks to explain the processes of change: Dillard *et al.*'s (2004) framework, Burns and Scapens' (2000) framework, and Hardy's (1996) framework. The main aim of this "contextual" framework is to explain how management accounting change can be conceptualized from different perspectives.

Scott (1995) describes the multilevel analysis of institutional change as ranging from the broadest, worldwide perspective to the level of a subunit of an organization. Consequently, the contextual framework adopts Dillard *et al.*'s (2004) model which recognizes that these multiple levels of the institutionalization process move in a recursively cascading manner by hierarchically linking the wider institutional influences of the political and economic factors level (PE) with the organizational level, through the organizational field level (OF). Therefore, this framework examines the impact of external, as well as internal, factors on management accounting processes within a specific organization. At the political and economic level, the most general norms and values, e.g. laws, principles and practices (CPE), are established and influenced by the existing distribution of power in the society. This macro set of norms and principles shapes the organizational field criteria (COF), which are a

function of the societal-level criteria (CPE). As a result, the organizational field practices (POF) are influenced by the organizational field criteria (i.e. isomorphism pressures), which were previously shaped by the PE principles. The contextual framework adopts isomorphism drivers in equivalence with COF, which consist of professional groups, industry groups, government, etc. that might be inhabited by individual organizations. The final institutional level is the organization itself (Hopper and Major 2007).

Following the process of institutionalization, the new organizational institutionalized rules or practices may influence the set of normative practices (POF) and criteria (COF) at the organizational field level by reinforcing, revising or eliminating existing practices (Dillard *et al.* 2004). Changes in organizational field practices (P'OF) and criteria (C'OF) usually influence the political and economic system criteria (C'PE). Thus, new political and economic criteria defy the present coalition of power at the economic and political level. Consequently, the social processes of institutionalization, de-institutionalization or re-institutionalization can be generated by choosing significant norms, values and institutions. Hence, such new accounting practices become institutionalized through these social and political processes, which cannot be justified merely by economic rationalities (Dillard *et al.* 2004; Wickramasinghe and Alawattage 2007).

As a result, the contextual framework offers an outstanding basis for an account of organizational change as it pays special attention to the link between organizational contexts and organizational actions and offers a more detailed account of the different interests and powers of human actors (see Ma and Tayles 2009). In particular, this framework can serve as a basis for explaining management accounting change within JCO case-study. And this study, by applying contextual framework, seeks to achieve further progress in institutional theory and to tackle the issues that shown in the following Figure (7.47).

Figure (7-47) The Processes of Institutionalization of MAC in JCO

7.4.1. The Emergence Process at Political and Economic Level

MA literature-inspired institutional theory emphasized that political and economic factors influence management accounting change. The dominant socio-economic and political context faced by most organizations in societies is the market and state system. The primary aspect or legitimating attribute within this system is economic efficiency (Dillard *et al.* 2004). Any institutional aspect characterized as organizationally relevant is eventually motivated and legitimated by the criteria of economic efficiency. It follows “a particular form of rationality and so organizations operating within that cultural context will garner more legitimacy if they can emulate or symbolically reproduce that rationality” (Meyer and Rowan 1977:315). Thus institutionalized and rationalized, elements are included into the formal organization structure because they maintain manifestations of this rationality regardless of whether they actually facilitate the desired outcome (Dillard *et al.* 2004).

Management accounting changes and other organizational changes are part and parcel of changing social and economic relations. Management accounting is a key craft in all businesses; it has been changed significantly across time, adopting new forms, mechanisms and roles (Clarke and Lapsley 2004). As discussed in the preceding chapters, public services in Jordan are provided by the central government through 25 ministries and related public organizations, such as directorates, departments, agencies and public corporations. The characteristics that distinguish these types of organizations are governance structures and adherence to various legislative acts (laws and regulations) that are encoded and enacted by the central government, such as the ‘State Financial System’, accounting principles, Organic Budget Law, and Customs Law, etc. Along the same lines as structuration theory, the social norms and values are codified in the laws and regulations that reflect legitimating grounds. These laws and regulations formulate and determine the rules for the organizational actions, including accounting, that are represented in the representational schema. In turn, the Cabinet (Coalition of Power) uses these laws and regulations through the political and economic institutions to exercise and allocate control over resources in the form of a dominance perspective (see Giddens 1984).

According to Jordan's classification as an emerging and open market, Jordan has faced substantial environmental challenges in the last two decades. These challenges are intensified by the scarcity of natural resources, large budget deficits, soaring levels of debt, structural unemployment, high tax pressures, poor quality of public services, and bureaucratic public

management. The main internal sources of national income are customs and tax revenues, Jordanian exports and foreign investments (see IMF 2004). In this regard, March and Olsen (1984) argue that human actions, social and economic contexts, and institutions operate upon each other in complicated ways, and these complex, interactive processes of action and the configuration of meaning are essential to political life. Institutions seem to be neither neutral reflections of exogenous environmental forces nor neutral arenas for the performances of individuals driven by exogenous preferences and expectations.

As a result, contemporary political assumptions tend to portray political institutions (such as the legislature, policy-making, the legal system and the state, as well as economic institutions) as a reflection of society, political phenomena as the cumulative consequences of individual behavior and action. Hence “Social, political, and economic institutions have become larger, considerably more complex and resourceful, and *prima facie* more important to collective life. Most of the major actors in modern economic and political systems are formal organizations, and the institutions of law and bureaucracy occupy a dominant role in contemporary life” (March and Olsen 1984:734). Thus, Jordan developed the National Agenda in 2005, which represented a remarkable milestone in efforts to build a modern Jordan to address the above-mentioned challenges and to determine the State priorities. A major process of change was required to upgrade public services by focusing on delivering results from one side, and to develop structures, functions, financial management systems, business processes, and working procedures from another (see NA 2005).

The most general norms and values at the political and economic level, just like the National Agenda including laws, principles and practices, were established and influenced by the existing distribution of power (the Cabinet) in society. The National Agenda strategy involved three main phases, one of which is the public sector and fiscal reforms that contained the MFR approach. However, the reform phases were not without challenges and resistance to change. The government faced various types of obstacles and challenges in implementing the National Agenda, including the following: limited institutional capacity in government; resistance to change from traditional forces and the difficulty of building a national consensus; a lack of public support for reforms; negligible involvement of private-sector and civil-society actors in policy-making and implementing reforms; lack of financial resources; and uneasy regional political situation (EU 2007a).

From sociological perspective, social and political institutions, mainly the state, should be treated as independent factors, important to the ordering and understanding of collective life (March and Olsen 1984). Accordingly, the social stratification of a modern society with its associated distribution of wealth and income has obvious major impacts on state resources and political events. Class and power differences translate into political differences with great reliability across time and across society; differences in the organization and ideology of social class and power seem to lead to expected differences in political organizations and institutions (Tilly 1978). Therefore, institutional theories are usually based on two assumptions: (1) Political and economic systems comprise a number of elementary actors, and human behavior at the level of these elementary actors may be viewed as conscious, intended and flexible, or as unconscious, habitual and rigid. In either case, the preferences and powers of the actors are exogenous to the political system, depending on their positions in the social and economic system. (2) The collective behavior at societal level is best understood as stemming from the (possibly complex) interweaving of behavior understandable at a lower level of aggregation (March and Olsen 1984).

To ensure a successful implementation of the reform process, in 2006 the Cabinet (coalition of power) developed an equivalent initiative for the National Agenda under the slogan “We Are All Jordan” (Kulluna al Urdun), aiming at bringing together different representatives of Jordanian society to debate the future of the country and involving all within the reforms process. At the same time, the Cabinet exercised its power over resources and meaning to enable the diffusion of the culture of change among governmental employees. The implementation process led to the translation of the priorities into more real actions and institutions among public organizations. And the donors and their consultants, who supported this reform process, kept providing progress reports through the work on the definition of performance indicators to measure outcomes of the implementation (see EU 2007a).

In the meantime, the MFR approach was introduced by the USAID/FRP-I & II as a tool for transforming government. It was launched at a workshop conducted by David Osborne, the author of *Reinventing Government* (USAID 2010c). The workshop focused on the ROB system as a tool for inspiring creativity, innovation and responsiveness to lead to better government outcomes, and highlighting the possible added value of the government performance (*ibid.*). The government had previously introduced KAA excellence model, TQM system, and new government structure to promote an excellence culture in the

environment and its adaptation to the new normative paradigm. The official introduction of a more pronounced 'MFR' philosophy occurred in 2008, when the government changed the focus of management and accounting to be more results-oriented. The reform process was based on the notion that the responsibilities and roles of politicians and civil servants can and should be separated (Modell *et al.* 2007). This was embedded in a rhetoric emphasizing the need to reduce the allegedly pervasive element of detailed political control in order to remove constraints on managerial freedom (*ibid.*). This may seem paradoxical as Jordanian public organizations are renowned for being highly autonomous in terms of budget and financial management. However, the introduction of 'MFR' approach was accompanied by a strongly-felt need to deregulate and decentralize central government operations and structure (*ibid.*).

Consequently, political and economic phenomena as an MFR approach were viewed as outcomes of three primary factors: the distribution of preferences (interests) among political actors, the distribution of resources (powers), and the constraints imposed by the rules of the game (structures). Each of these was treated as exogenous to the political and economic system. Thus, the overarching societal level of political and economic systems, within which norms and values were created and disseminated to members of that society, provides the overarching parameters and criteria for the organizational field and, hence, organizational actions. These parameters are reflected in organizational field criteria and practices that are the outcome of knowledgeable and reflexive actions by human agents over time and through space, which are in the same way reflected in organizational practices (Dillard *et al.* 2004).

Accordingly, the behavior of public organizations was as an outcome of the interlocking choices by individuals and subunits, each acting in terms of expectations and preferences manifested at organizational field level (Niskanen 1971). In the same way, the behavior of a market or economy was an outcome of the interlocking choices by individuals and organizations, each acting in terms of a set of expectations and preferences manifested at societal level (Stigler 1952). It is not necessary for the micro processes to involve choice, and collective behavior in a group can be viewed as the outcome of the interlocking of reproduction processes occurring at the organizational level (Lave and March 1975). In other words, the collective behavior of the government (at organizational field level) can be viewed as the outcome of the interlocking of standard operating procedures and accounting rules followed at the level of the individual organization (Nelson and Winter 1982).

Dillard *et al.* (2004) assert that the process of institutionalization moves in a recursively cascading manner through three levels of socio-historical relationships, including the economic and political level or societal level (PE), the organizational field level (OF) and the organizational level, and involves the coalition of power. Dillard *et al.*'s (2004) model proposes an institutionalization process by hierarchically linking the political and economic level (PE) with the organizational field (OF). The PE level establishes the most widely and generally accepted norms and practices (taken-for-granted norms or practices) influenced by politically developed symbolic criteria (CPE), such as accounting principles, and budget laws and regulations (Dillard *et al.* 2004). These norms and practices at the PE level tend to be strongly influenced by powerful coalitions (power distribution) and represent the macro context for resource allocation (*ibid.*, and see also, Hopper and Major 2007; Cruz *et al.* 2009).

7.4.2. The Diffusion Process at Organizational Field Level

The concept of organizational field is central to institutional theory (Greenwood *et al.* 2002). It represents an intermediate level between organization and society and is instrumental (helpful) in processes by which socially constructed expectations and practices become disseminated and reproduced (Scott 1994; 1995). Within the organizational field, as mentioned earlier, the societal norms and values were translated into field-specific expectations. The societal parameters enter the organizational field through the organizational field criteria, which are a function of the social, economic and political level criteria, providing a wide array of criteria for evaluating legitimate action at the organizational field level. Accepted and workable practices considered legitimate at the organizational field level are the function of organizational field criteria, and provide the legitimating and regulative base for actions at the organizational level (Dillard *et al.* 2004). The organizational field (OF) level represents the second level of organizational change and includes socio-economic configurations such as public organizations, industry groups, professional bodies and consultants (*ibid.*).

In the same way, Jordan's central government introduced the MFR approach, which was translated and disseminated within the governmental environment among public organizations. In this regard, institutions determine rules, procedures and structures for organizations as stipulations for granting legitimacy and resources (Meyer and Rowan 1977). These institutions usually comprise governments, professional bodies and other organizations in the same field (Tolbert and Zucker 1983), in addition to interest groups, universities and

public opinion (DiMaggio and Powell 1983). Organizations within the environment adopt similar structures and systems even though there is no technical reason to do so. When that occurs, organizational homogeneity becomes clear in the field.

NIS theorists explain why homogeneity is present among organizations in structures and systems within the environment. NIS is concerned with many aspects of extra-organizational factors (e.g. political, environmental uncertainty, and institutional legitimacy). This homogeneity process is also called isomorphism. Accordingly, DiMaggio and Powell (1983) have developed the work of Kanter (1972), while they explain organizational homogeneity through three isomorphic processes: coercive, mimetic and normative. Coercive isomorphism "[...] results from the formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function [...]" (1983:150); mimetic isomorphism occurs when organizations tend to repeat the same practices of successful organizations under uncertainty conditions to perceive legitimacy and success; and normative isomorphism occurs when university specialists and professional bodies impact on the practices of organizations that are seeking to obtain professionalism (DiMaggio and Powell 1983; Scapens 2006). Along the same lines as DiMaggio and Powell (1983), Scott (1995; 2001; 2005; 2008) states that the fundamental components of organizational field institutions had to be the regulative (coercive), the normative, and the cognitive-cultural (mimetic) levels.

Accordingly, isomorphism is produced from powerful forces (pressures or external powers) that are established at the political and economic (PE) level, leading public organizations to change their structures, goals, and systems or practices. Within the Jordanian public sector, the central government has exercised power over public organizations including JCO, requiring them to adopt and implement MFR approach including budgeting systems (ROB and GFMIS). In particular, they have changed the budget focus from the traditional budget into ROB, which links the strategic planning information with the budget outputs. ROB as well as GFMIS helps the cabinet (power coalition) to control the public organizations by linking ROB with KPIs, and the latter examines the contribution of each organization to achieving strategic objectives that stem from national objectives. Mutually, these changes have resulted in many developments in terms of the NPM idea, management accounting and MFR approach. Thus, MFR approach promotes management accounting rules and practices to

make revenue collection more efficient and equitable and improve budgeting and financial management within the governmental field (see USAID 2011a).

Management accounting systems, such as MFR approach and ROB and GFMIS systems, show three coupled elements of isomorphism. Firstly, the reform process is extremely imitative. “The diffusion of reforms seems to follow a similar pattern to that of other processes of imitation”. Imitation emerges through two paths: one is the copying of sound policy and prestigious instances of reform, while the other is the application of “more or less global” templates or models for reform (Barzelay and Gallego 2006:536). Secondly, the institutional dynamics of international organizations - including looking beyond resources and legitimacy - work as the source of such legitimated normative change. International bodies such as IMF, USAID and the World Bank can generalize individual models and put them into the widespread template. Meyer (1998) suggests that reform initiatives are situated within a world society sharing a certain culture and structure. Andersson (2001:25) further argues that “countries have been given great possibilities and incentives to converge - and to pursue similar reforms” as a result of the transnational reforming and legitimating processes (Barzelay and Gallego 2006). Bearing in mind Meyer’s and Anderson’s findings, the international donors, especially USAID, and their consultants contributed to implementing and diffusing these systems inside the governmental environment in Jordan. Thirdly, the government has coercively and formally imposed these systems on public organizations with the aim of developing and improving. Consequently, all of these types of isomorphism are overlapping and interacting with one another in the diffusion process of the new accounting system.

The three mechanisms of isomorphism discussed above have taken place in the organizational field. In doing so, the MFR approach was represented as a global change paradigm concerned with the control and organization of Jordanian PFM, as the ROB system emerged by normative isomorphism represented by the influence of international professional bodies, especially USAID, and their consultants. Hence, the normative pillar embodied the political and social obligations to international bodies in order to gain support and legitimacy. In the governmental context, the ROB seemed like a coercive pressure stemming from economic and political influence as well as the cultural expectations of the society in which they operate. At the same time, the government has imposed ROB system on public organizations to promote convergence within the governmental field. Within the organizational field, the

ROB system has taken the form of mimetic isomorphism resulting from standard responses to environmental uncertainty. Hence, organizations tend to mimic similar organizations in their field that they perceive to be more legitimate or successful (DiMaggio and Powell 1983). However, these three types interact in empirical settings; they tend to derive from different conditions and may lead to similar outcomes (*ibid.*).

Although isomorphism can be seen as a deterministic, social process produced by common dominating norms and values, myths and diffusion are associated not only with NPM reforms but also with post-NPM reforms (Christensen and Lægreid 2007). So, ROB should not be viewed as an isolated initiative. Rather, it should be seen as part of a set of broader reforms - referred to as MFR approach - designed to focus PFM more on results delivered and less on internal processes or inputs. These broader fiscal reforms included the GFMIS system, which was designed to increase the efficiency and effectiveness of public resources, organizational restructuring to increase the focus on service delivery and improve coordination, and institutional and supervisory changes to strengthen public accountability for performance. ROB is an important complement for implementation of the GFMIS system, which makes information for ROB more easily available and also reduces the bureaucratic workload of budget analysts and decision-makers, who are thus able to save more time for ROB analysis and focusing on strategic objectives (USAID 2011b).

As a result, public sector and fiscal “reforms are shaped as a product of interaction between national reformers and transnational mediators and editors of such reforms” (Andersson 2001:23). Analysis of how NPM reforms have changed internationally and transnationally not only embodies isomorphism but also provides an explanation for the transformation of reforms - differences that emerge over time and between countries (*ibid.*). Finally, the process of reforming countries themselves changes the external legitimated ideas as part of the imitative process. Although the reform process reflects imitative isomorphism, it also includes normative isomorphism which is used by international experts and consultants in the implementation of reforms. Thus, a reform agenda that embodied the principal aspects of the national reforms consisted of recommendations and normative statements on how government should be reformed (*ibid.*). Differences among public organizations were supposed to reflect differences in emphasis and rate of national reform, but the direction and the main content of the reforms were claimed to be similar from one organization to another (*ibid.*). However, reforms and experiences in JCO were generalized and assembled as a reform agenda or policy

package, and a universal logic and explanations were assigned to the reforms. The reforms were described and justified as responses to a common set of pressures facing the country (*ibid.*).

For this rationale, the reform process is viewed as involving a strategic relation between two collective actors: politicians and the public organizations (Hood 2000; Barzelay and Gallego 2006). Hood (2000) examined this strategic relation from the perspective of politicians. He interprets politicians as possessing invariant preferences or motivations. In Jordan, this concept reflects the coercive process exercised over public organizations, requiring them to adopt new GFMIS as well as ROB systems, together with ideas that were disseminated in these organizations; this can be described as a cognitive structure that includes not only values but also fundamental relations. The cognitive structure of the organizational change appears to have survived, even though rules, routines and organizational structures have changed through technical modernization (Barzelay and Gallego 2006). At the same time, institutional theory “focuses on the reproduction or imitation of organizational structures, activities, and routines in response to state pressures, the expectations of professions, or collective norms of the institutional environment” (DiMaggio & Powell 1983; Zucker 1977: 728). The organizational field within which institutional pressures are exercised on organizations is also likely to be a determinant of organizations' responses to institutional pressure. Organizational responses¹³⁰ to institutional pressures differ according to the degree of active agency and resistance exerted by the organizational actors (Oliver 1991).

Consequently, the diffusion of MFR approach was implemented by applying three stages that maintain its success: 1) an organizational culture dedicated to service that embraces innovation and learning processes; 2) strategic planning and performance management excellence; 3) the government's focus on achieving societal goals (results) and strategic definition of its role. Each stage was essential for implementing the MFR approach within public organizations; hence, these stages reinforced and enriched one another. The implementation of MFR approach over the last decade has led to significant changes within public organizations in the governmental field in terms of management accounting and organizational changes. These changes have taken place in different aspects, including organizational structure, information technology (IT), financial and management accounting

¹³⁰ Organizational responses differ from conforming to resisting, from passive to active, from preconscious to controlling, from powerless to influential, and from habitual to opportunistic, depending on the institutional pressures toward conformity that are exerted on organizations (Oliver 1991).

and other aspects of financial management, HR management, customer orientation, total quality management, KPIs, and strategy.

The main actors for bringing the MFR approach into public organizations are supposed to be the administrative leaders - entrepreneurs who have formal responsibilities for change processes delegated by political leaders (Naschold 1996; Christensen and Lægheid 2001). They are expected to organize change processes that are closed and controlled, and they should be high achievers in terms of means-ends thinking; that is, they should be able to conduct an analytical process to confirm that the reforms, in many ways, are the best solutions to the problems their organizations face. People with special expertise in change may help them with this analytical process through the collection of reform experiences. The effects of the reforms were viewed mainly in relation to the NPM intentions and as being successful in solving some major problems in public organizations. According to this perspective, it is possible to generate innovative solutions to common problems of the public sector. The logic behind this is that innovation results from exploration, i.e. the ability to search for new solutions (March and Heath 1994). The MFR approach has thus been considered the main vehicle of such innovative accounting solutions (Christensen and Lægheid 1999).

A cultural-institutional perspective on MFR approach rests on the assumption that organizational structure and systems, including accounting systems, develop slowly and gradually, more through evolutionary than revolutionary processes and more through formal than informal means (Selznick 1957). This adaptation to internal and external pressures and conditions, the institutionalization process of the MFR approach, created a unique culture, identity or spirit in each organization (Olsen and Peters 1996). The unique cultural norms and values created integration, stability and, sometimes, resistance to rapid change. Management accounting processes including the MFR process were “path-dependent” because a lot of resources had already been invested in developing certain formal norms and values, and certain areas of expertise and tasks, and the paths taken in the past heavily influence the continuing reform journey, such as the National Agenda (March and Olsen 1989; Peters and Pierre 1998). Hence, organizational culture “is what a group learns over a period of time as that group solves its problems of survival in an external environment and its problems of internal integration”, and “such learning is simultaneously a behavioral, cognitive, and an emotional process” (Schein 1990:111).

The MFR approach works best in an atmosphere of TQM and a culture of performance excellence. TQM principles must be integrated with management accounting practices and systems if they are to result in quality and excellence in government (that is, quality products and services, and satisfied customers). The planning aspects of MFR can be successfully engaged as the vehicle to introduce TQM concepts in organizations which are just starting a continuous improvement process. Public organizations use continuous improvement as one vehicle for promoting a “culture of performance” whereby organizations develop the MFR approach to administering programs and allocating resources to improve performance. The Jordanian government has enriched the culture of TQM system and KAA Excellence Model for excellence of performance in public organizations as a means of enhancing the MFR approach. However, when facing the reform process, such institutions are presumed to change only slowly and ineffectively and to hang back, as measured against instrumental objectives (Olsen and Peters 1996). Hence, proposed reforms will go through a compatibility analysis; that is, those that are incompatible with the traditional organizational and cultural norms and values will be modified or opposed, whereas those that are more compatible will be gradually implemented (Brunsson and Olsen 1993; Christensen and Lægreid 1999)

There is evidence of path dependencies reinforcing consistencies between national reform initiatives in the Jordanian central government. Despite the official government view of the enhanced emphasis on citizen orientation, performance improvement and TQM principles as compatible with ‘MFR’ approach, the implementation of these practices has been strongly coordinated. Besides MOF, MOPSD and DU were established in the Cabinet to ensure the successful implementation of the MFR approach. This may be described as the intended effects of the reforms introduced in the late 2000s. These intended effects have since been cemented by path-dependent developments. This choice was conditioned by widespread concerns about the potential risks of adopting an alternative budgeting and accounting system in public organizations. Altogether, these developments suggest that uncertainties surrounding alternatives to the ‘MFR’ system have reinforced increasing returns and the tendency towards path-dependent change (see Modell *et al.* 2007). Accounting innovations have a primarily cultural-cognitive nature; that is, changes must be compatible with existing institutions, and they must be gradually changed. Public organizations place emphasis on a process of exploitation in that they elaborate on what is known and preferred (March and Heath 1994). They stress consistency, search close to where they have searched before, and use known solutions (Cyert and James 1992). Accordingly, one can ask how government leaders deal

with their dual role of protecting traditional norms and values and developing the institutional basis when managing reforms and whether MFR approach is incompatible with existing cultural traditions and institutions (Christensen and Lægreid 1999).

At the organizational field level, the public organizations (represented by MOF and its affiliated organizations, especially JCO), consultants and experts have developed procedures, guidelines and plans on how the accounting systems (ROB and GFMIS) should and/or could be disseminated and implemented within certain industries and by specific organizations. Although MOF organizations gained experience in these accounting systems during the learning process, the systems have to be reinforced or alternative practices developed. Over time, certain practices will come to the fore and be recognized as ‘better’ practices (see Dillard *et al.* 2004). Thus, institutional pressures in highly institutionalized environments are expected to generate organizational responses, but the responses are not always the same across all organizations. Rather, these responses may differ widely according to the forms of institutional pressures that come from both within and outside an organization, as well as the acceptable responses available (Oliver 1991; Greening and Gray 1994). The expectation is that there will be a greater extent of conformity (isomorphism) as the level of institutionalization increases in relation with the need for greater legitimacy in society (see Dillard *et al.* 2004).

Dillard *et al.*'s (2004) framework explicitly recognizes the organizational field level as an interactive part of a larger social system that must be considered when investigating the establishment, embedding and institutionalization of criteria and practices. The impetus for accounting innovation can come from any of the sources stated above. The general economic and political forces will most likely appear through the organizational field. The inter-organization influences can occur at the organizational field level. The impact of other organizations could be reproduced at the organizational level as competitor behavior is observed and evaluated or it could appear through the organizational field (OF) criteria and practices. For organizations, the major resource allocation institutions lie at the OF level. The relationships between the three levels represent the institutionalization process as an on-going, recursive one, and introduce a general framework within which a more explicit articulation of change can be developed (Dillard *et al.* 2004; Hopper and Major 2007). In this study, the organizational level explains the response of JCO to the external pressures by implementing ROB and GFMIS systems as key components of MFR approach.

7.4.3. The Implementation Process at Organizational Level

At the organizational level, individual organizations can be innovators (I), who develop new organizational practices (PI) within the organizational field practices (POF) and organizational field criteria (COF) within the boundaries of the OF practices, or late adopters (LA) who mimic innovators' practices. PLA can gain legitimacy from the success of both PI and OF practices (Dillard *et al.* 2004; Hopper and Major 2007). In doing so, the majority of public organizations including JCO¹³¹ can be classified as late adopters of innovations since they are seeking to gain legitimacy and resources. However, late adopter organizations can integrate (PI) into their actual practices or operating processes, or they can use (PI) but decouple it from or loosely couple it to actual (PLA); that is, the innovator practices are used in a ceremonial way to give legitimacy to late adopter organizations (Dillard *et al.* 2004). On the one hand, if decoupling does take place, the institutional practice is identical, but the realization of the activity is different from non-decoupling (*ibid.*). By implementing the practice, it is reinforced, but the reinforcement is not as strong as it might be in another way and is likely to diffuse more rapidly (*ibid.*). On the other hand, in the case of loose coupling, the innovator practices can be used in a ceremonial way to give legitimacy to late adopter organizations (Wanderley *et al.* 2011).

OIE theorists indicate that economic and other institutional factors may induce change (Greenwood and Hinings 1996). In the same way, Ter Bogt (2008) recognizes that economic issues, such as budgetary pressure and fiscal stress, played a key role in the introduction of various management accounting changes. In addition, several accounting changes were introduced because they were a 'success' elsewhere, and seemed 'modern' because they were expected by certain stakeholders or because they were mandated. This suggests that such factors, especially isomorphism and external legitimation, as mentioned in sociological institutionalism in the previous section, also played a partial role in the change process (Ter Bogt 2008). According to this perspective, JCO has changed its emphasis from a mechanistic approach with inputs-orientation to a post-mechanistic approach with outputs-orientation in order to deal with the transformations in the Jordanian government field. JCO became more technology-responsive and established new rules and routines emphasizing the significance of the ICT and accounting innovations as a consequence of greater competition in the

¹³¹ JCO was a late adopter – but most of the areas of change and innovation required a base before the ROB and GFMIS platforms could be considered and eventually merged with them.

international trade facilitation, especially after 2000. In doing so, management accounting change has become the outcome of this organization's acts of conformity and adaption to external pressures. Thus, the institutionalization of the accounting changes to the MFR approach in JCO depended on the responses of organizational actors to external changes (Fligstein 1985).

Drawing on Burns and Scapens' framework (2000), the various accounting changes, especially budgeting systems in JCO, can probably be considered changes in 'rules' and 'routines'. The central idea of this framework is MAPs and systems, a part of the organizational rules and routines. Accordingly, studying the processes of MAC requires a conceptualization of the ways in which new accounting practices evolve over time (Nelson and Winter 1982). Thus, the Burns and Scapens' framework reflects "the process of institutionalization" which is a continuous process of change over time, comprising four steps. The first process entails the encoding of existing institutions and meanings into new rules and routines; the second process includes the behavior and institutions exercised by actors through enacting the routines of day-to-day activities; the third process is reproduction which happens as a result of repeated behavior or use of the routines and rules over time (such as procedures re-engineering); the fourth and final process is the institutionalization of rules and routines which have been reproduced by actors' behaviors or organizational activities (Burns and Scapens 2000).

At the organizational level, following the diffusion of MFR approach, including GFMIS and ROB system within the governmental field, the Jordanian government has imposed ROB system and GFMIS on the JCO as a pioneering organization, in 2008 and 2011 respectively. In both cases, the General Director of JCO used his power over resources and issued a formal decision to encode and enact these new accounting systems. Thus, JCO has started to implement these systems by training existing employees and establishing a new budget department and a strategic planning department to translate and follow up the implementation process. Hence, the change of accounting systems led to a change in organizational structure in order to facilitate the process of change in the budgeting systems on one hand and to adapt to the external environment on the other. The aims of these new departments were as follows: to prepare the budget by focusing on the results in terms of ROB system; link ROB system with strategic planning for the next three years; follow up capital projects and programs in accordance with the 'State Financial System'; and coordinate ROB programs and projects in

accordance with central ROB system. In addition to the strategic planning department, it was important to coordinate all programs and projects in the ROB system in relation to organizational strategic objectives, which must be prepared in accordance with national objectives. In doing so, ROB system and GFMIS helped to encode and enact many new accounting routines to adapt to the new environment, such as JCFS, TQM, BSC, strategic planning, accountability, new financial committees, and new chart of accounts, etc.

Some changes in the external institutional environment, such as budget cuts and an obligation to introduce ROB and GFMIS, could also be considered changes in rules. Such external changes have influenced various initiatives to introduce internal management changes in JCO, including TQM, KAA excellence Model (just like BSC) and JCFS. Although certain technical problems can arise when a new accounting system is being implemented, it appears comparatively easy to disseminate changes in rules and to introduce them ‘in theory’. Only time will tell whether organizational members completely understand and abide by a change in the rules, and the extent to which they have modified their ‘routines’. Some interviewees pointed out that it was not easy for them to accept the changes in the new budgeting systems and information, but with the passage of time the routines continuously displayed signs of slight change as a result of daily practices and learning, as they are ‘rooted’ in the organization’s values and institutions. Routines thus present a gradual and evolutionary change rather than sudden, major change (Nelson and Winter 1982; March and Olson 1983; Ter Bogt 2008).

Within the JCO, budgeting procedures have been modified in a set of rules laid down in the ‘budgeting manual’. These rules were established when the Jordanian government imposed ROB on the JCO (coercive change) in 2008. However, as these new rules, i.e. budgeting procedures, are implemented, modifications of the actual practices occur, either deliberately or unconsciously. Deliberate changes could occur due to resistance within the organization, or because of certain circumstances in that organization. Thus, the resistance to change in the JCO was largely represented by mental allegiance to a certain (old) system by traditional actors, or by particular ways of thinking and doing things embodied in existing routines and institutions (see Burns and Scapens 2000). Changes can also occur unconsciously when, for example, the rules are misunderstood or are inappropriate to the circumstances (Nelson and Winter 1982). Hence, in the enacting process of the budgeting procedures, new routines have emerged and have been reproduced over time by passing them to new members inside the

JCO. In doing so, ROB practices have become an acceptable way of doing things or taken-for-granted institutions among the JCO members. In this regard, the interviewees in the Budget Department indicated that

The change in the budget led to the establishment of many of the accounting routines among the organizational members, such as budget manual, expenditure mechanism, and budget preparation methodology, etc. Nevertheless, the change process continued as a new culture among employees, so that the JCO supports any new idea that serves the financial and non-financial work. We have developed all methodologies and mechanisms of financial and accounting action; we have examined the application of these procedures in practice, and we have watched the best working procedures of the same department in other organizations. Accordingly, we have reviewed and re-enacted our working practices and procedures and, if necessary, we amend any practice that leads to a change for the better. At the same time, we get a formal approval from top management about any new practice or procedure to become an acceptable way of doing things among organizational members.

Several interviewees also indicated that some effects of the changes in routines were gradually modified over time. These effects included an increase in the actual use of KPIs, strategic plans in capital projects and service-orientation, and ways of thinking in terms of results and effects (Modell 2004). Such developments could probably be regarded as changes that are in keeping with the ideas of MFR approach (Ter Bogt 2008). It appears that, in terms of JCO's concerns, there were also signs of a gradual change in other rules, such as in quality and human resources management, and in internal institutions, i.e. organizational culture and learning (Busco *et al.* 2002). That is, internally, the significance of such aspects as high-quality performance, keeping to stakeholders' orientation, and continuous improvement were more emphasized and supported than ever before. This was also the attitude of young employees and change agents who were brought up with 'NPM-like' values during their professional training, as observed (see Ter Bogt 2008).

As mentioned before, the MFR approach can work better in an atmosphere of TQM and a culture of performance excellence. JCO launched TQM system in 2002 and KAA Excellence performance Model in 2003. JCO used these systems as one vehicle for promoting a "culture of performance" and "organizational learning" whereby MFR approach was developed to manage programs and allocate resources to improve performance. In the same way, JCO introduced and promoted the culture of TQM principles and excellence in performance among its employees and stakeholders to adapt to external changes. An essential concomitant of the move to the MFR approach is the removal or at least relaxation of bureaucratic and procedural controls over line managements. The idea, in MFR, is to shift to accountability for outputs (performance) rather than for inputs (see Polidano 1999). Thus, JCO's organizational

structure was changed in 2011 from a centralized structure to a more flexible, flat and decentralized structure.

Moreover, JCO also changed the emphasis of management style from individual tasks to team-working and from hierarchical power to expert power (see Dawson 1994). Thus, teamwork and expert power led to employees' empowerment by exercising control using peer pressures and internal self-discipline or accountability among organizational members, as well as replacing managerial control with the peer pressures of teamwork (see Ezzamel *et al.* 1999). As a result, the processes of management accounting change occurred due to teamwork, organizational restructuring, decentralization of accounting functions, and the use of both non-financial and financial measures to evaluate the performance of employees and the organization as a whole. Meanwhile, decentralization in the accounting tasks increased the management accounting role in the management decisions and organizational change (see Innes and Mitchell 1990).

Institutional theorists suppose that a key determinant of organizational structure is the pressure exercised by external and internal powers on the organization to conform with a set of expectations to gain legitimacy and hence secure access to vital resources and long-term survival (Meyer and Rowan 1977). A common manner of gaining legitimacy is alignment with some downsized institutional myth (*ibid.*), which is occasionally manifested by the adoption of structural aspects displayed by other successful organizations through some isomorphic process (DiMaggio and Powell 1983). Remarkable evidence of the explanatory power of isomorphism has been provided by the Jordanian Government, when it considered that a de-concentration of power was an essential factor in the MFR approach, which is the opposite of the bureaucratic ideal. Accordingly, the rules of organizational design introduced by MFR approach are characterized by adherence to extensive decentralization, deregulation and delegation (see Aucoin 1990). Thus, the idea of decentralization is central to a de-concentration of power, where it is stressed that managers must take the initiative to get things done and the MFR approach should be used (*ibid.*). At the same time, technical explanations of organizational structure are not rejected, although they are obviously viewed as incomplete (Scott 1987). Institutional theory emphasizes the interests and power of different stakeholders in organizational analysis, which are typically absent or de-emphasized in the rationally instrumental approach taken by most recent accounting research (Brignall and Modell 2000). Some interviewees mentioned that

The new organizational structure of JCO helped to delegate the responsibilities of the General Director to his assistants through a decentralized decision-making and delegation of powers. It included increasing the number of assistants to the General Director from two to three assistants. One of them was responsible for Finance and Management affairs. It also helped to restructure and redistribute the number of directorates that were associated directly with the Director General between three assistants in order to facilitate the work and procedures, and speed up the decision-making. This in turn led to an increased focus on specialists and experts in the work, and teamwork. A number of new technology systems emerged, including accounting systems, such as E-Customs, TQM, Business Intelligence system, and Risk Management as well as ASYCUDA system.

As a result of internal factors, the most resource-intensive activity was represented by the changes in ICT systems as, before the 1990s, ICT systems in the JCO were too rudimentary to serve as a reliable basis for effective performance management. Thus, the change in ICT can now help with business process re-engineering as a whole, including MAPs. Inherently, both intra- and extra-organizational factors overlapped and interacted in facilitating and directing the success of change (see Dawson 2003). In the JCO, a modern ICT, especially the ASYCUDA system¹³², was developed over time until it became the prevailing culture of the employees. It has the potential for being commonly used by organizational members, and its information technological facilities will be able to provide current information to the interest groups about the past, present and future. Hence it was classified in accordance with the needs of the users or actors either at the level of an organization or on other classification bases (see Tikk and Almann 2011). It was necessary to work out and add new accounting practices and systems for the purposes of specialized statements, analyses, or new user groups. Consequently, a regulated information system leads to more favorable conditions and platforms for new accounting systems, including GFMIS and JCFS, through the exchange of expertise between IT specialists and accounting cadre, and a combination of different IT-solutions, lessons learned, watching other experiments, etc. (*ibid.*).

These characteristics of ICT, especially the ASYCUDA system, have led to the introduction of new management accounting rules, and there have been changes in the working practices of the management accountants within JCO such as, risk management, TQM, BSC, strategic planning, KPIs, ROB, JCFS and GFMIS. These changes clearly accompanied the introduction of ICT systems, but they were driven by the implementation of the MFR approach. Although there was a lag between MAPs and ICT, there has been keen interest in the application of integrated accounting systems through knowledge-based systems (Dillard and Bricker 1992), within the finance directorate in JCO.

¹³² For example, the introduction of E-processing of Customs Declarations (within ASYCUDA system) and the eventual paperless processing environment will lead to even greater and more competitive outcomes for JCO.

Various effects have been envisioned, including reduced costs, time saved, high quality and a general evolution in accounting practices. Consequently, JCO's employees believe that expert mimicking systems improve accounting consistency, ensure that proper accounting procedures are carried out in each transaction and reduce the likelihood of human error and intervention. Hence these systems have the potential to improve accounting efficiency and effectiveness significantly (Dillard and Bricker 1992). As a result, knowledge-based systems especially ROB and GFMIS have created a "dialogue of understanding" among accounting and budgeting staff and involve shared commitments. Thus, knowledge is considered the acquisition and manipulation of facts, and communication the transferring of information (*ibid.*). According to Burns and Scapens,

"In various types of organizational activity, routines may emerge which either have deviated from the original rules, or were never explicitly set out in the form of rules. In such cases, it may be decided to formalize the established routines in a set of rules, e.g. in a manual of procedures. This may be done to avoid the knowledge being lost when key staff leave, to facilitate the training of new staff, or to exercise control over further modifications. Here the process moves from routines to rules [creating] a two-way relationship between rules and routines" (2000:7).

Similarly, JCO has implemented a new JCFS as an integrated accounting system as a result of advancing technology in other organizational activities. The aim of implementation is that, instead of the accounting knowledge of existing stand-alone FoxPro systems being managed and controlled by one employee, the new JCFS will enable the publishing of accounting knowledge among all accounting staff. Although the process of enactment may involve conscious choice, it will eventually stem more usually from reflexive monitoring and the application of tacit knowledge about how things are made. Of course, the enactment of rules and routines may be subject to resistance, especially if the rules and routines challenge existing meanings and values, and actors have sufficient resources of power to intervene in this process. However, in the absence of 'external' changes, such as advances in technology, there is unlikely to be a reopening of previously agreed arrangements and, hence, routines may become somewhat resistant to change. Nevertheless, the change can take place (Burns and Scapens 2000).

Both internal and external factors, especially ICT, interacted and were treated as a feedback mechanism. As a result of the implementation of GFMIS, not only is financial information being used as feedback, but also non-financial measures are being applied in order to assess the strategic objectives and their roles in national objectives, efficiency and influence of organizations' activities. In the JCO, a new performance measuring system has been

implemented along the lines of the GFMIS and ROB systems. The focus has been shifted from ex-post financial control to preventive control mechanisms. Nevertheless, both ex-ante and ex-post aspects are necessary for an effective financial control system (see Bergmann 2009). As a feedback mechanism, financial and control managers' report information about the deviations between the objectives of the information and the achievements to the decision-makers, which enables the decision-makers to make modifications and improve the quality of decisions (see Tikk and Almann 2011). The set of inherently related aspects in such a financial management model within the organizational field was an MFR approach (*ibid.*). As a result, the JCO has embarked on implementing a new JCFS in order to combine all internal accounting practices under a unified integrated system in parallel with GFMIS. And the management of JCFS project affirmed that the system was influenced by powerful factors forcing the system to change from one phase to another.

The powerful factors can be divided into internal and external factors. The internal factors included HR management (Mintzberg 1993), technological facilities (Wilson 1989), organizational culture (Schein 1996; Jarnagin and Slocum 2007) and internal control system (Bergmann 2009). In examining external factors, it must be considered that changes should comply with the principles of legislation of the 'State Financial System'. This system still includes some outdated traditional practices that did not permit the use of ICT or automated systems in financial matters. However, they should not have a destructive impact on the current system but, rather, a supportive and evolutionary effect that will serve the public interest in order to make accounting, budgeting and reporting systems more transparent, consistent and comparable (Tikk and Almann 2011). Consequently, the key sets of external factors that have been considered are economic and political factors (Von Hagen 2006; Bergmann 2009), legal acts (Guthrie et al. 1999), resource dependence (Salancik and Pfeffer 1978; Hodge and Piccolo 2005) and other public organizations in the same field (Chan and Xiao 2009).

Burns and Scapens (2000) assume that the extent to which specific rules or routines are modified and reproduced may depend on other rules and routines - including budgeting and control procedures. In the same way, New JCFS has been implemented to adapt to GFMIS and ROB systems, which can help to collect all the information required to prepare and execute the budget in any of the different formats. In any of the budget formats, the information should contain all expenditures including expenditures that are financed by

sources outside the central ROB system. In some cases, JCO may be given the right to finance its activities and projects through revenues it gains itself. In other cases, JCO may receive grants from foreign sources, or fund its activities through domestic or foreign loans. The budget should include all of these major expenditures, to provide assurance that scarce resources are allocated to the priority programs and projects, and that legal control and public accountability are properly enforced (USAID 2012a). The interviewees from JCFS project team indicated that

New JCFS enabled us to link with GFMIS; the latter is a system for managing financial information on the State level. Both GFMIS and JCFS are inextricably linked by automated chart of accounts (COA) comprising all ROB accounts. Accordingly, ROB system now is preparing and executing electronically at all stages.

In the process of routinization, previously formulated rules were modified and reproduced as the organizational actors locate mutually acceptable ways of implementing them, and the new budgeting procedures were defined in a set of rules laid down in the ‘budgeting manual’ (Burns and Scapens 2000). These rules were established at the time of imposition of governmental standard procedures in JCO. Hence, through the enactment of the budgeting procedures, new routines emerged, such as budget methodology and budget analysis technique; these were reproduced over time and ‘passed on’ to new members inside the organization (Nelson and Winter 1982). In this way, rules were established and, through their implementation, new routines emerged and became common practice among JCO employees. Thus, a reproduction process emerged as repeated behavior led to a reproduction of the routines. Consequently, the routines themselves started to be institutionalized. Thereafter, they become the taken-for-granted way of behaving, disassociated from their particular historical situations. They become the unquestioned (and unquestionable) way of doing things (Burns and Scapens 2000).

JCO, like other public organizations, is authorized to execute budget resources and to disburse funds within the boundaries of the approved budget law, State Financial System, and liability document. JCO is assigned to formulate the timely submission of annual budget requests and justification prepared in accordance with the requirements of the Budget Circular and Organic Budget Law of 2008. It has used its technical capacities and information to make effective trade-offs among on-going programs and evaluate new policies and programs as it had/has the ability to manage programs in accordance with delegated budgets authority and approved budgets. It has become accountable for operational efficiency in public service delivery; at the

same time, it is responsible for developing its actions. Consequently, it has established new effective systems of strategic planning and control, including hiring and training of professionally proficient budget and financial management officers and staff. Besides, the accounting systems have become able to match the standards set by MOF, aiming to provide firm accounting procedures of revenue, expenditures, assets, liabilities and fund balances (USAID 2012a).

It might be reasonable to expect that formal management accounting change (e.g. the implementation of ROB, JCFS and GFMIS) will be more straightforward than attempting to change ways of thinking, which are embedded in existing management accounting routines. However, the successful implementation of a formal change may require new ways of thinking. This is only possible if managers who are responsible for implementing the new accounting systems have sufficient power through the control of resources to impose change. In the case of JCO, the General Director sometimes used his ‘delegated authority’ from the government in the form of power over resources, and other times in the form of power over meaning to institutionalize the change processes. Thus, changes to new management accounting systems can take place in the processes of enactment and reproduction. Such changes have taken place in JCO as the managers found new ways of coping with the problems generated over time. Through these processes of enactment and reproduction, generally acceptable routines emerged and, in time, they may become institutionalized (see Burns and Scapens 2000).

The principal design of delegated authority is a function of the organizational executive represented by the general director appointed by the government¹³³. The key to success lies in the degree to which the organizational executive is able and willing to specify the primary mission of organization, in order to reflect organizational strategic objectives (Aucoin 1990). The achievement of this principle of delegated authority is possibly best evidenced in NPM reforms by the new ways of thinking in which JCO has been reorganized in some accounting systems, such as strategic plans and KPIs (*ibid.*). The aim here is to have organizations with missions which, once articulated, can be managed to achieve results in conformity with national objectives. The rationale of this delegation is the perceived need for organizations to be managed in ways which enable them to ‘stay close to the customer’ or, in public

¹³³ Political will from the JCO top management is critical, and was the primary reason that JCO has been successful.

management terms, to be responsive to citizens/stakeholders. Thus, with clearly defined missions, JCO can be more responsive to its stakeholders, as its responsibilities to provide a public service are not undermined by the desire to pursue other objectives, which may deflect attention from their primary mission (*ibid.*).

Policies of expenditure control, as in GFMIS and ROB system, and the associated priorities to improve the treasury have led to some clearly defined functions and roles, which have served to generate forms of selective centralization and decentralization that are compatible with one another. Centralized expenditure budgeting and decentralized management accounting systems, for example, can coexist without straining the capacities of public managers to manage their fiscal resources and results effectively (Schick 1988). However, the technique of public management does not presume that there is any one best way of achieving results. Rather, managers are given the responsibility without prescription to decide how results are to be achieved and fiscal resources allocated. One of the manager's roles is to decide a way of working, and he or she is then individually responsible for results, be they successful or otherwise (Hughes 1998). JCO managers are thus intended to develop new working methods for long-term planning and strategic management. This means deciding the organization's mission, looking ahead to the accomplishment of goals and objectives including how the organization fits into its field, and the strengths, weaknesses, opportunities and threats in that government field. These techniques provide better utilization of resources by linking outcomes to resources, especially when they are combined with the ROB system. Hence, only by knowing what the JCO does, what its future aims are, and how it has progressed towards its declared objectives will the leadership be able to decide which programs or projects are worth retaining (*ibid.*).

JCO has thus achieved the approach of MFR and has adopted a new way of doing things. MFR approach has stressed the use of administrative KPIs to measure the performance of individuals, and efficiency KPIs to measure the performance of strategic plans. JCO's strategic plan has included and developed KPIs as a way of measuring the progress made towards realizing the declared objectives. The performance evaluation system aims to measure the performances of individual staff as well as organizational objectives, which are later compared to actual achievement at the end of the year. This led to the extension of the system of rewarding or sanctioning staff in accordance with the aim of achieving progress towards the objectives. Informal methods of appraisal were considered ineffective and were

thought to lead to inferior organizational outcomes. There is a general aim to monitor and improve the progress of staff and plans towards achieving objectives (Hughes 1998). However, performance measurements involved more than indicators, as Holmes and Shand argued:

“A performance orientation is only marginally influenced by the existence of performance information”; rather “the need is for much greater attention to be given to changing the incentives in the institutional framework – the budget and personnel systems, the approach to control and risk management, etc. so that performance is encouraged, rewarded and required” (1995:563).

To conclude, financial management of JCO has been one of the more successful of the PFM reforms. As discussed earlier, the most significant changes in this area have been ROB, JCFS and GFMIS systems to replace the older performance and programs budget, and traditional accounting systems. The focus was previously on inputs rather than outputs, or on what the JCO actually does. ROB system distributes money according to specific programs of the JCO with all costs listed for programs, subprograms and even lower levels. The programs’ budgeting was accurate in a control sense but, in practice, JCO like other public organizations had little information on actual program delivery. So, GFMIS has been established to provide JCO as well as other public organizations with accurate and timely information about national programs and projects. GFMIS is more reliable for devolving budget responsibility to lower levels of the hierarchy through classifications of accounts; hence it is an important part of the management tasks. In doing so, PFM has focused attention on the best use of resources and improved the quality of public services to stakeholders. This not only helps to cut costs but also involves directing resources to support those programs that are most capable of achieving strategic and national objectives, including shrinking the budget deficit. Accordingly, JCO has greatly increased its ability to control expenditure by having accurate and instant information (see Hughes 1998).

Based on the above, the institutional framework recognized that management accounting systems can both shape and be shaped by the institutions that govern organizational activity. As such, institutions can be seen as imposing form and social consistency upon human activity through the making and remaking of settled habits of thought and action. At the same time, institutions themselves evolve through a process of routinization of human activity. Hence, there is a duality between action (human activity) and the institutions, which structure that activity (Burns and Scapens 2000). This duality is fundamentally the agency-structure relationship, which has been widely discussed in the social sciences in recent years (see

Giddens 1984; Barley and Tolbert 1997; Burns and Scapens 2000; Dillard *et al.* 2004). So, management accounting change was understood in terms of the behavior of individuals and groups within the JCO. The conceptualization of management accounting change in terms of the processes of institutionalization emphasized the complexity of change processes inside JCO. Hence the JCO case-study revealed the processes of institutionalization as on-going and cumulative processes of change through which management accounting rules and routines were reproduced and institutionalized over time. However, not all behavioral patterns were institutionalized to the same extent (Tolbert and Zucker 1996; Burns and Scapens 2000).

7.5. The Main Findings of the Study

The study findings show how recent NPM reforms describing better ‘MFR’ orientation and a concentration on strategic planning techniques may have consistently strengthened long-term managerial concerns about current working processes within JCO as well as the Jordanian government (Modell *et al.* 2007). Hence, there is some basis for arguing that the emerging National Reform Agenda may represent a turn to the process of NPM models. While such models have usually been associated with the ‘bureaucratic’ paradigm rooted in pre-NPM practices (Hood 1991; 1995), the ‘new’ process of NPM concerns confirmed a more external focus on the public sector and fiscal reform agenda. At the political and economic level of Jordanian central government, there is obvious evidence of an ‘MFR’ approach entailing budgets is being cut while revenues are rising. which prevent bureaucratic institutions from seriously challenging its institutionalized position (Pierson 2000). This has stressed the dominant position of ‘MFR’ approach, including budgeting systems, at the expense of process-orientated management practices, and has emphasized the path-dependent and evolutionary nature of change (Modell *et al.* 2007). The multi-levels of institutional analysis confirm this observation by drawing attention to the flexible and socially constructed dimensions of institutional convergences, and by increasing legitimacy and support.

Management accounting systems, along with the MFR approach (ROB, GFMIS, & JCFS), were recognized as innovations that provided a “better way” to be more beneficial within the JCO, and were thereby influenced by the prevailing practices at the organizational field level. Over time, these practices came to articulate the generally held perception of how best to organize and manage so that the objectives of economic efficiency, sustainable development and wealth creation could be more effectively achieved. Consequently, the political and economic-level criteria were strengthened. The organizational field-level practices changed from input-process orientation to results orientation, and the public organizations including JCO began to adopt these practices within the governmental field. As such, these practices became institutionalized at three levels of institutional analysis because there was congruency of criteria across these levels. At the organizational level, the institutions and values tend to reflect those of the organizational field criteria. Hence, resources were allocated in order to develop representations, actual or illusory, of the apparent best practices. This has resulted in the adoption and reinforcing of these institutional practices. Institutionalization was brought about as the practices that supported the dominant position of the power coalition (the Cabinet) and national objectives were recognized and rewarded (Dillard *et al.* 2004)

The constructed contextual framework in this study extends institutional theory to offer a fuller explanation of institutionalization processes by integrating three institutional approaches: NIS, OIE, and power mobilization theory. More specifically, the integration and refinement of the contextual framework was constructed by Burns and Scapens (2000), Dillard *et al.* (2004) and Hardy (1996) from one side and by Pettigrew (1987) and Dawson (1994) from another side, as a new institutional framework for conceptualizing management accounting change as well as organizational change. This may be considered an innovative aspect of the study because this is the first attempt to unite these three theoretical frameworks precisely under one conceptual framework in order to provide a holistic view of processes of change, drawing on an interpretive case-study (see, Van de Ven and Huber 1990: 213). The framework explicitly recognizes the socio-economic and political nature of institutional change and provides a basis for a more complete understanding of the dynamics involved in such an enacting, embedding and changing of organizational aspects and processes. Expanding the focus of the institutional theory-based management accounting research can help produce a more inclusive representation of accounting as the object of institutional practices as well as provide a better articulation of the role of accounting in the institutionalization process (see Dillard *et al.* 2004).

The contextual framework recognizes the interrelationships among the different institutional dynamics as well as across levels of institutional organizations. The changes in the accounting processes of JCO were launched and sustained by concomitant changes in the organizational processes, and therefore cannot be sufficiently understood without considering the influences from the organizational field and the societal levels (see Dillard *et al.* 2004). The framework thus clearly recognizes the organizational field as an interactive part between a larger social and economic system and the organizational level. It more directly addresses the dynamics of emergence, diffusion and implementation of accounting criteria and practices. In this respect, the framework sets this purpose, because it identifies all aspects of the internal context (the *micro level*) and all aspects of the external context (*macro level*) and provides a reference to analyze the interaction of all aspects (the interaction of internal aspects, the interaction of external aspects, and the interaction between internal and external aspects) in a dynamic of change. However, most researchers who have used this approach have provided a macro vision of phenomena and do not consider the interaction between internal elements of the organization. Actually, they often analyze deeply how the *macro level* influences the micro

level in the dynamics of organizational change, but few considerations have been given to the role played in the dynamics of change by the interaction of *micro level* elements.

There is a call to consider many facets: how the external environment influences organizations, and how organizations respond and translate these influences into their internal elements in terms of management accounting and organizational changes (see, Pettigrew 1985a; Broadbent and Guthrie 1992; Dawson 1997; Pettigrew *et al.* 2001; Broadbent and Laughlin 2005; Broadbent and Guthrie 2008). Institutional theory thus represents a microcosm of the social and political situation and the dynamic process enacting, reinforcing or changing it. The JCO case-study identified how organizational actions have been influenced beyond the representative realm, in that substantive changes have taken place at all levels of the institutional organization. Thereafter, the importance of the high-level social contexts in motivating, sustaining and changing institutional practices was highlighted (see Dillard *et al.* 2004). This confirms the evidence that other factors, beyond economic ones, may play an influential role in the implementation of management accounting changes in both private and public organizations (see, Meyer and Rowan 1977; Greenwood and Hinings 1996; Burns and Scapens 2000; Scapens 2006; Ter Bogt 2008; Chapman *et al.* 2009).

The MFR approach was considered a response by the Jordanian central government, including JCO, not only to economic factors, such as budgetary stress, but also to external changes in social expectations and formal rules or institutions. As a result, the changes may have been intended not only to make public organizations more businesslike and to increase economic efficiency and effectiveness, but also to show sensitivity, well-intentioned or superficial, to new external and internal conditions, or to formally fulfill the new requirements and expectations (see Tolbert and Zucker 1999; Ter Bogt 2008). Institutionalism thus draws attention to the interrelatedness of the various elements. Similarly, once a new budgeting system (i.e. ROB) is introduced, it affects not only an organization's efficiency but also the internal and external expectations and the organizational and human interests and habits (Ter Bogt 2008).

Like Hopper and Major (2007), the findings confirmed criticisms of NIS theory. Social and economic pressures were inseparable, public organizations were not immune from institutional pressures, and extra-organizational competitiveness and innovations diffusion were significant. Thus, management accounting systems such as MFR approach, ROB and

GFMIS systems showed that three coupled elements of isomorphism have taken place in the organizational field. Firstly, the change process is extremely imitative. “The diffusion of reforms seems to follow a similar pattern to that of other processes of imitation” (Barzelay and Gallego 2006:536). Hence, organizations tend to mimic similar organizations in their field that they perceive to be more legitimate or successful (DiMaggio and Powell 1983). Secondly, the institutional dynamics of international bodies - including the pursuit of elements beyond resources and legitimacy - work as the source of such legitimated normative change; for example, the ROB system emerged through normative isomorphism represented by the influence of international professional bodies, especially USAID, and their consultants. Hence, the normative pillar embodies organizations’ political and social obligations to international professional bodies in order to gain support and legitimacy. Besides, international donors, especially USAID, and their consultants have contributed to the implementation and diffusion of these systems inside the governmental environment in Jordan. Thirdly, the ROB and GFMIS systems appeared as a coercive pressure stemming from economic and political influence as well as cultural expectations of the society in which they operate. At the same time, the government has imposed these systems on public organizations including JCO to promote convergence within the governmental field

These isomorphism pressures have filtered through to internal organizational practices including accounting practices. JCO has launched a number of initiatives at organizational level to adapt to external changes, including reorganizing its structure, redesigning internal processes and procedures, and developing different innovative strategies and systems focusing on MFR approach. Management accounting systems are closely coupled to organizational configurations. The processes of management accounting and organizational change are inextricably linked; each of them leads to the other. The interaction process between organizational configurations (i.e. structure, strategy, culture, ICT and leadership) and management accounting systems helped to identify and recognize the dynamics that have been manifested between them. In this regard, the MFR approach was shorthand for management accounting change that reflected an incremental and evolutionary change in the organizational and accounting culture of JCO across the government. In this way, JCO achieved ‘external adaption’ and ‘internal integration’ by developing operating procedures, customs processes re-engineering, and implementing new MFR mechanisms, especially ROB, JCFS and GFMIS systems. JCO is complex organization; it works in a dynamic, variable environment and has witnessed rapid technology obsolescence. The roles and responsibilities

of JCO are large and wide in accordance with its strategic objectives and mission. In response to the reinvention of government, JCO has progressed to become more mission-driven, customer-focused, result-oriented, and decentralized to match the needs of stakeholders, and to maintain its institutional stability and legitimacy.

Organizational change, in response to environmental change, is a clear force facing public organizations. The introduction of management accounting change has led to change in organizational structure, or vice versa, such as budgeting and planning systems. At the same time, organizational restructuring also contributed to the appearance of decentralization and delegation which led to the distribution of tasks and specialization in work, in order to achieve the goals of the JCO. Therefore, a down-sized, flatter structure has been implemented. It might be concluded that change or stability in organizational structure has shaped the 'management process' (see Scapens *et al.* 2003:6), but it may have influenced the processes of management accounting change (Zoubi 2011). In this regard, this result is not consistent with that of Cassia *et al.* (2005), who affirm that "the evolution of the organizational configurations is not always coherent with the relevance assumed by management accounting systems" (Cassia *et al.* 2005:273). However, this result is in accordance with the declaration that the changes in organizational structure have essential implications for the nature of management accounting, particularly the manner in which management accounting techniques are now being used (Scapens and Burns 2000). Similarly, Alkizza (2006) concluded that the changes in organizational structure induced the change in management accounting. Consequently, the decentralization and delegation of management accounting information have resulted in the reduction or mitigation of responsibilities of managers at different organizational levels (Zoubi 2011). This finding is in accord with Granlund and Lukka (1998:194), who concluded that "the recent tendency has been towards an increasing decentralization, in particular with regard to management accounting".

Organizational change, in response to external pressures, was also identified as organizational learning in the JCO (Argyris 1982). Organizational learning is the process of changing the organization to fit the changed environment. This change can be either adaptive (not involving paradigmatic change) or generative (moving to new shapes and structures). Hence organizational learning is crucial to organizational survival (Kloot 1997). The leadership can play an active role in this regard, as in the JCO case-study; the role of leadership was clearly manifested in the support of development and technological projects. The objective of the

introduction of information technology was to improve ease of access to information to achieve the decentralization of management accounting information in particular, such as budgeting and deviations analysis. Some accountants were worried about their future careers, while the rest of the organizational members feared involvement in accounting issues. So, they exhibited certain types of resistance, largely represented by mental allegiance to a particular (old) system by traditional actors, or to particular ways of thinking and doing things embodied in existing routines and institutions (see, Burns and Scapens 2000; Siti-Nabiha and Scapens 2005). The finding supports the notion that the role of management accountants has changed ‘from scorekeeping role to proactive consultancy role’ (Burns and Baldvinsdottir 2007:131), although there was a rise in the number of ‘hybrid accountants’ (Burns and Baldvinsdottir 2005:738).

Accounting and technological changes have become the prevailing culture among JCO members. For example, accounting has also been supplemented by Post Clearance Audit-based controls that allow JCO to verify compliance by traders after the release of goods and to expedite clearance. Thus, the new technological culture and the pursuit beyond excellence have stimulated accounting changes by showing a lag in existing accounting systems in comparison with ICT systems. Both interacted to create new accounting systems in a move towards adopting MFR approach (e.g. ROB, JCFS and GFMIS), which changed existing institutions and norms. Management accounting systems have reconsidered and reproduced the existing routines in shaping new organizational strategies and their KPIs (Hopwood 1987). The top management used its delegated authority from government, be it power over resources sometimes or power over meaning at other times, to encode and enact the new budgeting systems as well as to facilitate the change process. In this level, the framework provided by Burns and Scapens (2000) has been applied by the present researcher to explain the micro processes taking place within JCO where MFR approach was implemented. According to their formulation process, as the practices become routine (habitual), they become institutionalized at the organizational level. Accordingly, ‘rules’, ‘routines’ and ‘institutions’ were used as basic concepts to explain accounting change. Budgeting rules in an accounting context were part of a formal accounting system laid down in budget manuals, while routines are habits and accounting practices actually in use. In general, routines, i.e. habits and daily working practices, recognized that there was a gradual and evolutionary change rather than a sudden, revolutionary change (see Nelson and Winter 1982; March and Olson 1983; Ter Bogt 2008).

The above results are consistent with the assumption that routines may change gradually as a result of daily changes in working methods. A change in routines may result from experiences as well as learning process with existing working methods, a change in rules, or institutional pressures to change, which could result from internal or external dissatisfaction with certain practices and performances, newly developing values in society, increasing relative power of a certain group, or other changes in internal or external institutions (see, Oliver 1992; Greenwood and Hinings 1996; Burns and Scapens 2000; Ter Bogt 2008). Although routines are probably influenced by rules, they often differ from formal rules in certain respects. A formal, ‘ceremonial’ change in budgeting rules was taking place, which meant that managers and other employees actually think and act change in the same way (see, Burns and Scapens 2000; Ter Bogt 2008). Management accounting processes, including MFR process, are “path-dependent” because a lot of resources have already been devoted to developing certain formal norms and values, and certain expertise and tasks, and the methods used in the past heavily influence the future reform path (see, March and Olsen 1989; Peters and Pierre 1998).

There is evidence that the JCO’s ‘path dependence’ reinforced consistencies between different national reform initiatives coming from Jordanian central government. The findings thus emphasize that TQM principles and KAA excellence model of performance measure were compatible with MFR approach, and implementation of these practices has been highly coordinated. This result is inconsistent with the confirmation mentioned by Modell *et al.* (2007:463) that the MFR approach “has proved largely incompatible with TQM-inspired practices at the policy level, despite political intentions to the contrary”. On the other hand, it is consistent with their result that some selective adoption of concepts considered compatible with the ‘MFR’ approach, including delegated authority, decentralization, deregulation, delegation, de-concentration of power, and stakeholders’ satisfaction, were discernible in the recent attempt by the JCO to reconcile this approach with the trade facilitation initiative (Modell *et al.* 2007). These intertwined concepts emerged throughout the fieldwork and in the analysis of the JCO case-study. Some studies started to explore these concepts in relation to management accounting (see, Aucoin 1990; Modell 1996; Bourguignon *et al.* 2006; Wescott and Jones 2007), but more remains to be done to explore the nature and extent of the relationship between them, in particular, their role in bringing about or resisting management accounting change (Nor-Aziah and Scapens 2007). This suggests focusing beyond the role of institutions in shaping processes of management accounting change, which has been a feature of recent research informed by the Burns and Scapens (2000) framework, to an emphasis on

the role of the human agents in both shaping practices and in bringing about institutional change (see Nor-Aziah and Scapens 2007).

The study also concludes there was a radical change of management accounting systems in JCO, which was carried out by the ‘from-top-to-bottom’ method, on the initiative of the MOF and under the auspices of the EU and USAID; this was not only a decorative innovation in management accounting but was also represented in the working practices of the JCO financial management. The new ROB and GFMIS systems were produced and reproduced based on a re-consideration and re-enacting of theoretical and methodological bases and procedures. As a result, the accounting changes were managed by modifying the laws and regulations; generally, the JCO accounting legislation and regulations conform to the government instructions and regulations (see Tikk and Almann 2011). The accounting change of GFMIS and ROB systems to the same accounting principles has resulted in integrated, emergent and qualitatively new practices at organizational level. It is a means of producing comprehensive and timely information about strategic planning, COA and classification of assets, liabilities (including debts), revenues and expenses at all levels of management or programs. Hence the transition to accrual-based (or modified cash) budgeting requires managers to take responsibility for outcomes or outputs in the long term. The preparation of all statements and budgets by public organizations must be consistent with unified accounting principles (*ibid.*).

Management accounting change rarely occurs in a vacuum. The findings accord with Hopwood and Scapens and their followers that management accounting is not a static phenomenon but one that changes over time to reflect new forms and practices; and MAC is part of organizational change, so MA rules and routines are thus part of organizational rules and routines. The findings also confirm that a change in organizational culture, which is closely related to the organizational values (internal institutions), has an essential effect on management accounting change, while it also plays a central role in the desire to initiate such changes and in the acceptance of such changes by the organizational members. Similarly, the ICT created a new culture in JCO that was considered a solid platform to introduce new accounting systems. It has also enhanced the trust between IT staff and management accountants, in addition to their own confidence in accepting the change. All of these factors interacted to shape new accounting practices and routines.

The relationship between accounting practices (routines) and systems (rules) are recursive. While accounting routines were written and developed in the form of accounting rules to avoid a loss of knowledge and to facilitate the training of new staff (e.g. JCFS), accounting rules led to the emergence of new accounting routines, in equivalence with new systems (e.g. budget manual and chart of account) (Burns and Scapens 2000). At the same time, the findings confirm that some management accounting practices serve financial accounting purposes, especially external financial reporting. However, the findings do not confirm that management accounting was dominated by financial accounting. This emphasizes the view of Johnson and Kaplan (1987), who confirmed that financial accounting is served by management accounting. However, the findings do not verify the other perspective of Johnson and Kaplan (1987), which is that management accounting was dominated by external financial reporting; however, the present findings agree, to some extent, with the findings of other authors (e.g., Drury 1990; Drury and Tayles 1997).

The processes of management accounting change began when MOF imposed the ROB system and GFMIS on all its affiliated organizations, including JCO. Initially, many employees in the JCO showed great concern about the nature and effects of the new rules associated with the new systems and methods implemented under the directive of the government, represented by MOF. However, the way in which they were implemented and eventually became institutionalized was largely ceremonial and shaped by the existing norms and institutions within the JCO. This was realized by accepting and applying the new rules and the emerging routines from the daily working activities. Through this process, management accounting change was itself reformed and new accounting routines manifested which further embedded the existing institutions and norms (Siti-Nabiha and Scapens 2005). Thus, the change in JCO did not take place in isolation. Institutional theories (NIS and OIE) shed light on the discursive interaction between JCO and its institutional environment (Wickramasinghe and Alawattage 2007). These insights have important implications for institutional research on management accounting change and public sector reforms, in responding to recent calls to bridge the gap between the extra- and intra-organizational levels of analysis (Modell 2003; Dillard *et al.* 2004). And, as correctly narrated by Burns and Scapens (2000), this goes beyond conceptualization of management accounting change, as part of organizational change, that was mainly created by pressures for change in organizational routines over time.

7.6. Research Limitations

A research study may prove very useful after a finite amount of time but it is never without flaws or limitations. The present study is unlikely to be an exception as some of its limitations are linked to the nature of the case-study strategy, which lacks rigor and provides little basis for generalization. Other limitations are related to the period of the fieldwork for the research. This study is based on an intensive and holistic view of a single case-study. So, comparison with other public organizations operating in the same field or in other fields was not undertaken. Besides, a longitudinal case-study is required, both in a contextual approach and in institutional analysis, to study the processes of change over a long period of time. To have undertaken multiple case-studies with the aim of producing ‘thick explanation’ and to have performed further in-depth, holistic research in other public organizations over a long period of time would have been unfeasible due to the constraints of the timeframe available for PhD research and the limit on the length established for a PhD thesis. However, this study focused on meeting the objectives of the study and answering the questions formulated. In this regard, Dyer and Wilkins (1991:164) state that the analysis of multiple and longitudinal case-studies could lead to fewer contextual insights being communicated. As they argue,

“The most critical trade-off facing the researcher in this regard [that is, to undertake comparison within the same organizational field] is between the deep understanding of a particular social setting and the benefits of comparative insights. Thus, the more context a research investigates, the less contextual insight he or she can communicate”. In addition, “Theory that is born of such deep insights will be more accurate and more appropriately tentative because the researcher must take into account the intricacies and the qualification of a particular context” (Van Maanen 1979:615).

Another limitation of this study relates to the inaccessibility of some of the JCO’s managers as well as government leaders, who clearly had a significant role in the changes in budgeting systems and the managing-for-results approach, or in the management of the organization. Unfortunately, at the time of the fieldwork, some of them were no longer working at JCO. Also, compared with the nature of the operating system in JCO and its restructuring, a considerable number of experienced employees and managers had either been moved (internal job turnover/retirement) or had left to work elsewhere. The researcher thus had some difficulties in finding relevant managers to give him an integrated view of the reforms and changes, both inside and outside JCO, and their history. The researcher also faced some difficulties in recording interviews as some employees were not convinced that the researcher would keep the recordings confidential; this may affect the accuracy level and depth of the information obtained. Nevertheless, it’s worth mentioning that, at the time of the fieldwork, key actors and players in the processes of changes and reforms, who hold current and past

positions, were interviewed; experts and advisors were consulted; and relevant documents from consultants and donors were gathered. There was a planned focus on the professional groups involved in the processes of change and reform. The selection of the particular interviewees was directed by both theory and the research questions. Besides, a retrospective approach was used, as interviewees were asked to describe, explain and reflect upon the events that they had experienced in the past. In some situations, relying on their memories was the only practical option, but memories can be partial and may be shaped by present viewpoints. All of these were able to provide the researcher with very valuable information about the changes and reforms that had occurred over time in JCO and in the public sector.

7.7. Avenues for Future Research

Along with the above limitations, possible avenues for future research can be suggested. One possible avenue for future research is to undertake comparative case-studies of two or more organizations, especially if they are in the same institutional environment and are operating under the same circumstances. This comparison would be useful to acquire a deep understanding of their responses to the same new institutional pressures. This study might also be repeated in other developing countries, either focusing on a single country or comparing two or more countries. In addition, further research into whether reform paths similar to those examined in the current study are emerging in other parts of the public sector would also appear warranted. Further studies of these issues will expose whether the emphasis on better ‘managing for results’ orientation and adoption of management accounting systems reflect a ‘new’ reform paradigm (see Modell *et al.* 2007), or whether post-NPM reforms will continue to influence emerging accounting practices. Furthermore, further research might be longitudinal; hence, problems with processes of MAC in public organizations and factors that play a part can be examined in more detail and over a longer period of time.

Another possible avenue for further research is to apply the contextual framework and institutional analysis of this study to other cases involving public sector reforms. The authenticity of the conclusions presented in this study would be greatly enhanced if supported by findings from other studies. Besides, the dynamics of MAC might be interpreted with reference to other institutional ideas such as institutional logics and contradiction, and from other theoretical perspectives such as actor-network, critical, and political economy theories. Such an institutional analysis draws attention to different factors that may induce changes, similarities and differences between organizations, interactive change processes and effects of

changes that gradually develop (Ter Bogt 2008). Also, to more fully understand MAC in the public or private sectors, the roles of individuals and groups, the ‘rationality’ of responses to various pressures, and the role of external institutions (*ibid.*), probably deserve more explicit attention from future research. Moreover, the findings indicate that a change in organizational culture, which is closely related to the internal institutions, has an important impact on MAC, while it may play a crucial role in the desire to initiate such changes and in the acceptance of such changes by organizational actors. So, future research might focus more closely on the role of organizational culture in processes of change in both public and private organizations.

APPENDICES

Appendix 1: DBS Code of Ethics in Research

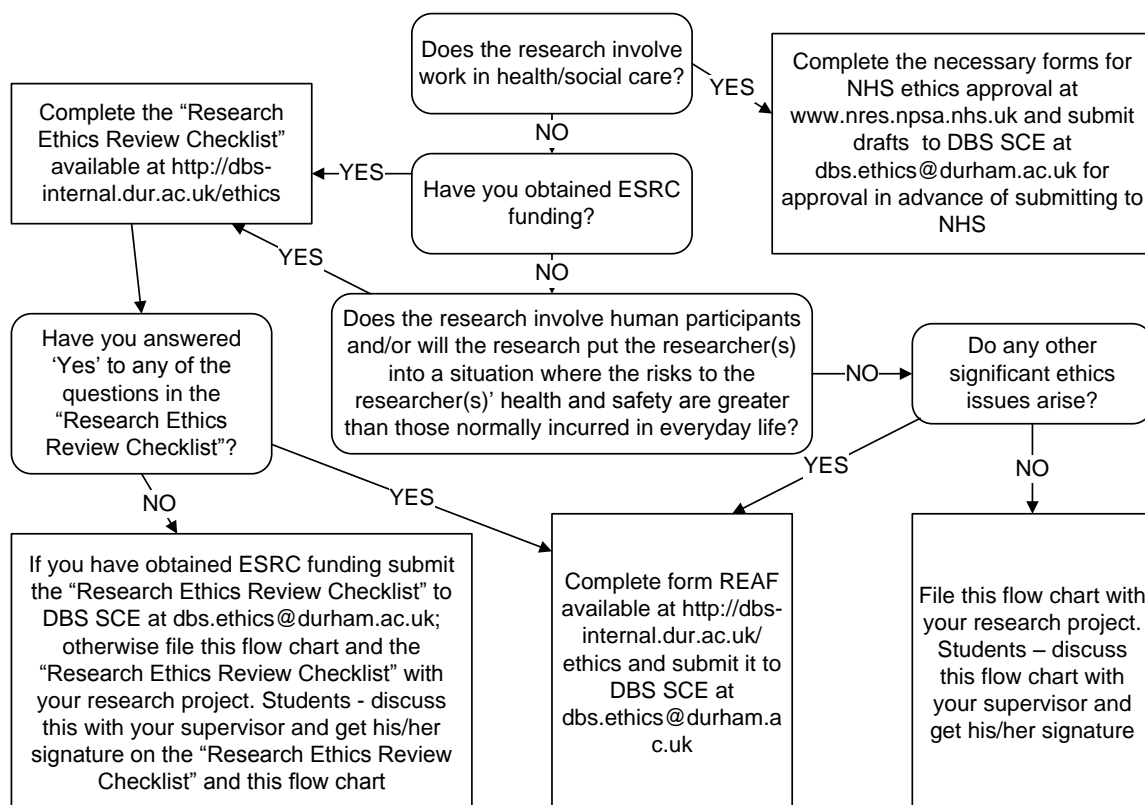
Process Flow Chart for Students and Staff Undertaking Research

Note: all research can potentially raise ethical issues. The focus here is on research involving human participants, but consideration should also be given to ethical issues that may arise in connection with research that does not involve human participants. In all cases research is governed by the University's "Policy for the maintenance of good practice in research" which is available at <http://dbs-internal.dur.ac.uk/ethics> and should be read in conjunction with this process flow chart. This process flow chart applies to each discrete research project and it is suggested that this flow chart is completed for each such project.

Please complete the details as requested below and highlight either 'YES' or 'NO' after each box to show your route through the flow chart. "DBS SCE" refers to Durham Business School's Sub-Committee for Ethics throughout.

Title of Project: **The Dynamics of Management Accounting Change in the Jordanian Customs Organization as Influenced by NPM Reforms: Institutional Pressures.**

Name of Principal Researcher or anonymous code of student: **Nizar Alsharari**



Signature of Principal Researcher or Supervisor; my answer is **No, No, Yes, & No.**

Appendix 2: Introductory Letter



Makers of business leaders

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03 November 2011

Ghalb Gassim
General Director of Jordan Customs
Jordan Customs
Jordan-Amman

Dear Ghalb Gassim

I write to thank you for your willingness to help my PhD student, Nizar Aisharari, in relation to his research on your organisation.

Your continued support is very much appreciated as the access to your organisation is very important for his research.

Yours sincerely

Professor Rob Dixon
Dean, Durham Business School



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Durham University is the trading name of the University of Durham



Appendix 3: List of Selected Internal Documents

No.	Document Name	No.	Document Name
1	JCO Annual Report from 2000 to 2012	2	JCO Budget from 2000 to 2012
3	JCO Strategic Plans from 2004 to 2012	4	JCO Organizational Structure from 2005 to 2012
5	ROB Manual and Methodology	6	Administrative Regulation Systems
7	TQM Manuals and Documents	8	Risk Management Manuals
9	JFCS Manual and Plans	10	Documents and Attachments of KAA Model for different stages
11	JCO Procedures Manuals	12	ASYCUDA Manual and Documents
13	Strategic Planning Manual and Methodology	14	Documents about ICT Systems (E-customs, Customer Services, BI, etc...)
15	Knowledge Management Map	16	Trade Facilitation reports
17	International Agreements especially WTO and WCO	18	Employees Performance Evaluation Checklists
19	GFMIS Manuals and Plans	20	Chart of Accounts
21	Budget Laws from 2006 to 2012	22	BSC Project
23	JCO Code of Ethics	24	JCO Training Plans
25	HR Plans and Manuals	26	Work Methodologies in the Finance Directorate
27	Financial Regulations and Instructions in the JCO	28	Some Minutes of meetings
29	JCO Future Plans and Projects, and more specific information collected from Customs Encyclopedia	30	General Information about JCO collected from the site: http://www.customs.gov.jo/

Appendix 4: List of Selected External Documents

No.	Document Name	No.	Document Name
1	National Agenda (NA)	2	Historical Information about Jordan
3	IMF and World Bank Reports	4	USAID Projects, Reports and Issues
5	MFR Toolkit and Manuals	6	New Civil System Manual
7	Global Competitiveness Reports	8	Documents about some ministries and the Cabinet related to Budgeting Systems
9	Some Specific Information about MFR collected from MOPSD, DU, and MOPIC	10	State Budget Laws and Manuals Together with Some Minutes of Meetings collected from GBO and Parliament.
11	The Projects and Booklets underlying Public Sector and Fiscal Reforms	12	MOF Issues and Reports
13	The State ROB Manual and Methodology	14	GFMIS Project and Manuals
15	MOF Strategic Plans and Reports from 2004 to 2012	16	Audit Bureau Reports and Financial Statements from 2007 to 2012
17	The Draft of Government Restructuring Project	18	Government Financial Regulation and State Financial System
19	Some Documents about E-Government and Public-Private Partnership (PPP)	20	KAA Model Manuals
21	Some Royal Decrees related to Political and economic Reforms	22	Statistical and Financial Information about Jordanian Economy
23	Government Implementation Plans and Executive Development Programs	24	Documents about Future Government Projects and Toolkits to keep on the MFR track
25	General Information obtained from Various Websites of Ministries and Public Organizations, such as, Prime Ministry, MOPSD, KACE, MOF, MOPIC, Central Bank and Statistics Department, etc...		

Appendix 5: Description of the Interviews Carried Out in the JCO Case-Study
(Both Inside and Outside the JCO)

S	Date	Meeting Length	Interview Period	People Interviewed	Department / Organization
1	15/11/2011	10:53 a.m. to 11:35 a.m.	42:16 minutes	Budget Execution Officer (Executive Position)	Budget Department / Finance Directorate – JCO
2	15/11/2011	12:33 p.m. to 1:15 p.m.	56:14 minutes	The Head of ASYCUDA Dept. (Supervisory Position)	IT Directorate - JCO
3	16/11/2011	9:00 a.m. to 9:40 a.m.	39:57 minutes	TQM manager (Administrative Position)	TQM Directorate - JCO
4	16/11/2011	9:40 a.m. to 9:49 p.m.	8:47 minutes	TQM manager (continued) - (Administrative Position)	TQM Directorate -JCO
5	16/11/2011	1:15 p.m. to 2:23 p.m.	1:08 hour	The Head of Budget Dept. (Supervisory Position)	Finance Directorate / Budget Dept. - JCO
6	17/11/2011	9:38 a.m. to 10:24 a.m.	46:49 minutes	The Head of Statistics Dept. (Supervisory Position)	Strategies and Institutional Development Directorate - JCO
7	17/11/2011	11:18 a.m. to 11:28 a.m.	10:29 minutes	The Head of Quality assurance Dept. (Supervisory Position)	TQM Directorate - JCO
8	20/11/2011	10:42 a.m. to 11:10 a.m.	28:29 minutes	IT Manager (Administrative Position)	IT Directorate – JCO
9	20/11/2011	11:34 a.m. to 12:39 p.m.	1:05 hour	HR Manager (Administrative Position)	HR Directorate -JCO
10	20/11/2011	1:31 p.m. to 2:30 a.m.	59:22 minutes	Focus group: (Strategic Planning Officers including the Dept. Head)	Strategies and Institutional Development Directorate - JCO
11	21/11/2011	11:05 a.m. to 12:44 p.m.	1:39 hour	Focus group: (The Head of Programming Department & IT Officer)	IT Directorate/programming Dept. - JCO
12	21/11/2011	2:19 p.m. to 2:27 p.m.	8:21 minutes	Temporary Admission Manager 1 , who previously was CFO (Administrative Position)	Temporary Admission Directorate - JCO
13	22/11/2011	8:42 a.m. to 9:20 a.m.	38:33 minutes	The Head of Financial Relations and International Economic Dept. (Supervisory Position)	Financial Relations and International Economic Dept. - MOF
14	22/11/2011	9:42 a.m. to 10:18 a.m.	38:39 minutes	Advisor for Reform Management (Consultant)	Senior Finance Economist - MOF
15	23/11/2011	10:33 a.m. to 11:37 a.m.	1:04 hour	Budget Preparation Officer (Executive Position)	Finance Directorate / Budget Dept. – JCO

16	23/11/2011	1:30 p.m. to 2:10 p.m.	40:38 minutes	The Manager of Strategies and Institutional Development Directorate (Administrative Position)	Strategies and Institutional Development Directorate - JCO
17	23/11/2011	2:33 p.m. to 3:18 p.m.	45:25 minutes	The Manager of Strategies and Institutional Development Directorate (continued)	Strategies and Institutional Development Directorate - JCO
18	24/11/2011	10:12 a.m. to 11:30 a.m.	1:18 hour	The Advisor of General Director for Trade Facilitation (Consultant)	GD Advisor Office -JCO
19	24/11/2011	12:43 a.m. to 1:33 a.m.	50:39 minutes	The Manager of Buildings and Maintenance Directorate (Administrative Position)	Buildings and Maintenance Directorate - JCO
20	27/11/2011	10:33 a.m. to 11:38 a.m.	1:05 hour	Focus Group: (Purchases Officers) (Executive Position)	Administrative Directorate - Purchases and Tenders Dept. – JCO
21	27/11/2011	1:36 p.m. to 2:41 p.m.	1:05 hour	Deputy of CFO (Administrative Position)	Finance Directorate - JCO
22	28/11/2011	11:34 a.m. to 12:55 p.m.	1:21 hour	Revenues Projection Officer (Executive Position)	Finance Directorate / Budget Department – JCO
23	28/11/2011	2:00 p.m. to 2:59 p.m.	59:22 minutes	Customs Expert (Consultant)	Tariff and Agreements Directorate - JCO
24	29/11/2011	8:59 a.m. to 10:00 a.m.	1:01 hour	JCFS Project Manager (Administrative Position)	IT /Financial Systems Development Project - JCO
25	29/11/2011	11:10 a.m. to 12:11 a.m.	1:01 hour	Temporary Admission Manager 2 , who previously was CFO (Administrative Position)	Temporary Admission Directorate - JCO
26	29/11/2011	1:22 p.m. to 1:51 p.m.	29:16 minutes	Internal Audit Officer (Executive Position)	Finance Directorate/ Internal Audit Dept. - JCO
27	30/11/2011	10:06 a.m. to 11:12 a.m.	1:06 hour	The Deputy of Strategies and Institutional Development Manager (Administrative Position)	Strategies and Institutional Development Directorate - JCO
28	30/11/2011	1:55 p.m. to 2:27 p.m.	32:17 minutes	The Operations Head of GFMIS Project (Supervisory Position)	GFMIS Project – MOF
29	1/12/2011	8:51 a.m. to 9:20 a.m.	29:02 minutes	The Head of Saving and Loans Dept. (Supervisory Position)	Finance Directorate/ Saving and Loans Dept. – JCO
30	1/12/2011	12:30 p.m. to 1:12 p.m.	41:36 minutes	The Head of Financial Audit and Control Dept. (Supervisory Position)	Control and Inspection Directorate/ Financial Audit and Control Dept. – JCO

31	4/12/2011	11:23 a.m. to 12:09 p.m.	46:08 minutes	The Head of Rewards Dept. (Supervisory Position)	Customs Cases Directorate / Rewards Dept. - JCO
32	5/12/2011	8:18 a.m. to 9:21 a.m.	1:03 hour	The Head of COA in the GFMIS Project (Supervisory Position)	GFMIS Project – MOF
33	5/12/2011	1:48 p.m. to 2:48 p.m.	One hour	Deputy of Tariff and Agreements Manager (Administrative Position)	Tariff and Agreements Directorate – JCO
34	6/12/2011	8:16 a.m. to 9:02 a.m.	45:49 minutes	The Head of General Expenditures Dept. (Supervisory Position)	Finance Directorate/General Expenditures Dept. – JCO
35	6/12/2011	9:24 a.m. to 9:48 a.m.	24:12 minutes	The Manager of Customs Intelligence Directorate (Administrative Position)	Customs Intelligence Directorate – JCO
36	7/12/2011	12:31 p.m. to 1:14 p.m.	43:26 minutes	The Head of Guarantees Dept. (Supervisory Position)	Finance Directorate/Guarantees Dept. – JCO
37	7/12/2011	1:35 p.m. to 2:02 p.m.	27:34 minutes	The Manager of Telecommunications and Electronic Control Directorate (Administrative Position)	Telecommunications and Electronic Control Directorate - JCO
38	8/12/2011	2:28 p.m. to 3:20 p.m.	52:21 minutes	The Head of Revenues Collection Dept. (Supervisory Position)	Finance Directorate / Revenues Collection Dept. –JCO
39	11/12/2011	9:30 a.m. to 10:17 a.m.	42:02 minutes	International Cooperation Officer (Executive Position)	Public Relations, Media and International Cooperation Directorate – JCO
40	11/12/2011	1:15 p.m. to 2:19 p.m.	1:04 hour	The Head of Refund Dept. (Supervisory Position)	Finance Directorate – Refund Dept. – JCO
41	12/12/2011	9:58 a.m. to 10:41 a.m.	43:26 minutes	The Head of Self-Expenditure Dept. (Supervisory Position)	Finance Directorate / Self-Expenditure Dept. – JCO
42	13/12/2011	11:25 a.m. to 12:33 p.m.	1:08 hour	ROB Analyst (1) - (Supervisory Position)	ROB Analysis Dept. – GBO
43	14/12/2011	9:18 a.m. to 10:12 a.m.	54:50 minutes	Strategic planning and Organization Officer (Executive Position)	Strategies and Institutional Development Directorate - JCO
44	14/12/2011	11:05 a.m. to 11:25 a.m.	20:17 minutes	The Head of E-Tracking System (Supervisory Position)	E-Tracking Dept. – JCO
45	14/12/2011	12:49 p.m. to 2:22 p.m.	1:33 hour	ROB Analyst (2) - (Supervisory Position)	ROB Analysis Dept. – GBO
46	15/12/2011	8:12 a.m. to 8:45 a.m.	33:28 minutes	Deputy of ASYCUDA Project Manager & Temporary Admission (Administrative Position)	Temporary Admission Directorate - JCO
47	15/12/2011	9:13 a.m. to 9:42 a.m.	29:16 minutes	Temporary Admission Head (Supervisory Position)	Temporary Admission Directorate - JCO

48	15/12/2011	10:58 a.m. to 11:44 a.m.	46:52 minutes	Deputy of Risk Management system (Administrative Position)	Risk Management Directorate – JCO
49	15/12/2011	2:05 p.m. to 2:37 p.m.	32:43 minutes	ROB Analyst (3) - (Supervisory Position)	ROB Analysis Dept. – GBO
50	18/12/2011	10:48 a.m. to 11:17 a.m.	29:25 minutes	Financial Studies Manager (Administrative Position)	Financial Studies Management - MOF
51	18/12/2011	12:09 p.m. to 12:50 p.m.	41:05 minutes	ROB Analyst (4) – for Customs Affairs (Supervisory Position)	ROB Analysis Dept. – GBO
52	19/12/2011	11:00 a.m. to 11:10 a.m.	10 minutes	Delivery Unit Manager (Administrative Position)	Delivery Unit - The Cabinet
53	19/12/2011	11:10 a.m. to 11:40 a.m.	30 minutes	Delivery Unit Manager (continued)	Delivery Unit - The Cabinet
54	20/12/2011	8:35 a.m. to 9:50 a.m.	1:15hour	Self-Expenditure Officer – Endeavors (Masaii) - (Executive Position)	Finance Directorate /Self-Expenditure Dept. - JCO
55	21/12/2011	10:16 a.m. to 10:48 a.m.	32 minutes	Self-Expenditure Officer – Performance (Tadiat) - (Executive Position)	Finance Directorate – Self-Expenditure Dept. -JCO
56	21/12/2011	1:07 p.m. to 1:41 p.m.	34 minutes	Self-Expenditure Officer – Rewards (Perks) - (Executive Position)	Finance Directorate – Self-Expenditure Dept. - JCO
57	22/12/2011	10:26 a.m. to 11:50 a.m.	1:24 hour	Researcher in Public Sector Evaluation Unit (Executive Position)	Public sector Evaluation Unit – MOPSD
58	22/12/2011	2:36 p.m. to 3:08 p.m.	32:38 minutes	The Secretary of Financial and Economic committee (Executive Position)	Financial and Economic committee - Jordanian Parliament
59	27/12/2011	8:49 a.m. to 9:24 a.m.	35:29 minutes	The Head of Control and Audit Dept. (Supervisory Position)	Risk Management Directorate/ Control and Audit Dept. – JCO
60	27/12/2011	10:50 a.m. to 11:45 a.m.	55:13 minutes	The Head of Assess Compliance Dept. (supervisory Position)	Risk Management Directorate / Assess Compliance Dept. – JCO
61	28/12/2011	8:38 a.m. to 9:34 a.m.	52 minutes	Salaries Officer (Executive Position)	Finance Directorate / General Expenditure Dept. – JCO
62	28/12/2011	9:42 a.m. to 10:18 a.m.	36:11 minutes	Purchases Follow-up Officer (Executive Position)	Finance Directorate / General Expenditure Dept. - JCO
63	29/12/2011	11:38 a.m. to 12:02 a.m.	24:36 minutes	The Head of General Expenditure Dept. (Supervisory Position)	Finance Directorate / General Expenditure Dept. - JCO
64	29/12/2011	2:17 p.m. to 3:15 p.m.	57:13 minutes	The Head of Selection and Analysis Dept. (Supervisory Position)	Risk Management Directorate / Selection and Analysis Dept. – JCO

65	2/1/2012	2:10 p.m. to 2:57 p.m.	47:11 minutes	The Manager of Customs Training Centre (Administrative Position)	Customs Training Centre - JCO
66	3/1/2012	12:15 p.m. to 12:34 p.m.	19:34 minutes	The Head of Internal Audit Dept. (Supervisory Position)	Finance Directorate / Internal Audit Dept. - JCO
67	3/1/2012	2:27 p.m. to 3:23 p.m.	56:17 minutes	Focus Group: (Customer Service officers) - (Executive Position)	Customer Service and Follow-up Directorate - JCO
68	4/1/2012	10:02 a.m. to 11:08 a.m.	1:06 hour	The Head of Budget Component in GFMIS (supervisory Position)	Budget Component/ GFMIS Project – MOF
69	5/1/2012	3:10 p.m. to 3:50 p.m.	39:50 minutes	The Head of ROB Component in FRP II (Supervisory Position)	ROB Component and GFMIS system/ FRP II –MOF
70	8/1/2012	1:14 p.m. to 1:35 p.m.	21:24 minutes	HR Officer (Executive Position)	Human Resource Directorate – JCO
71	9/1/2012	12:00 p.m. to 12:35 p.m.	34:30 minutes	The Secretary of Single Window Project (Executive Position)	Risk Management system/ Single Window Project - JCO
72	10/1/2012	2:00 p.m. to 2:38 p.m.	38:35 minutes	Guarantees Officer (Executive Position)	Finance Directorate / Guarantees Dept. – JCO
73	11/1/2012	11:55 p.m. to 12:27 p.m.	33:49 minutes	The Head of Golden List Dept. (Supervisory Position)	Risk Management Directorate – JCO
74	15/1/2012	9:47 a.m. to 10:14 a.m.	27:53 minutes	Deputy of Legal Affairs Manager (Administrative Position)	Legal Affairs Directorate – JCO
75	16/1/2012	10:58 a.m. to 11:09 a.m.	11:39 minutes	Control and Inspection Manager (Administrative Position)	Control and Inspection Directorate - JCO
76	16/1/2012	2:13 p.m. to 2:17 p.m.	4:15 minutes	The Head of Budget Dept. – Follow-up (Supervisory Position)	Finance Directorate / Budget Dept. - JCO
77	17/1/2012	12:33 p.m. to 12:48 p.m.	15:55 minutes	The Head of HR Development Dept. (Supervisory Position)	HR Directorate - HR Development Dept. - JCO
78	25/1/2012	1:13 p.m. to 1:33 p.m.	20:48 minutes	The Head of JIT Purchases Dept. (Supervisory Position)	Management Directorate / JIT Purchases Dept. - JCO
79	29/1/2012	11:58 a.m. to 12:35 p.m.	37:44 minutes	Focus Group: (Quality Assurance Officers) - (Executive Position)	TQM Directorate/ Quality Assurance Dept. - JCO
80	31/1/2012	11:58 a.m. to 12:21 p.m.	23:46 minutes	ROG Component Leader (Administrative Position)	ROB Component/ FRP II – MOPSD
	Summary	57:52 Hours of Interviews		15 Managers Interviewed	80 Interviews Carried Out and Recorded

Appendix-6: The Interview Guide for JCO Case-Study

- **General and Historical Data:**

- 1) Description of the interviewees' current work (including their academic qualifications) and of their previous work;
- 2) Presentation of the organization (its present and previous organizational structure, strategy, main services provided, historical background, strategic goals, processes, systems, technology adopted, staff (management styles), main strategic policies, etc.);
- 3) Main challenges that JCO has faced recently;
- 4) What effects have these changes had on the accounting systems, the accountants and their roles?
- 5) Have there been any significant changes in the accounting systems in recent years?
- 6) What management accounting innovations and IT innovations has JCO implemented? What was the impact of each of them on the other?
- 7) What was expected from the changes made? How would they make a difference?
- 8) What effects have these changes had on the JCO and its members?
- 9) What effects have these changes in organizational structure and information technology had on management accounting systems and practices? How have they done so?
- 10) What changes in all aspects of public management have already been completed? What has not been completed?
- 11) What further changes are expected, or do you consider necessary, and why?
- 12) As far as you know, has the introduction of similar changes and experiences with other organizations or advice of external consultants also played a role in the decision to implement a particular change?
- 13) Have any economic and political influences led to change?
- 14) What is the impact of the government role on organizational systems?
- 15) Can you say anything about the effects that each of these changes has had, for example, on the efficiency or effectiveness of the JCO, or the stakeholders?
- 16) What factors, in your opinion, determine whether a particular innovation has yielded success or not?
- 17) If multiple changes are made, why are many regularly made in JCO, and are they for the implementation of major management and accounting changes? Were they due to internal and external developments, or were more new changes needed; had the last changes been insufficient?
- 18) Please indicate what other changes in all organizational aspects (e.g. planning, control, and management) have taken place? Have any successful or unsuccessful innovations in these aspects not been mentioned before? What is your comment?
- 19) What organizational changes do you expect in *the near or slightly more distant future*, or do you consider them necessary/ desirable? Why? Are there any changes in financial management in *the future* you expect or consider necessary?
- 20) Could you please also briefly indicate which management or organizational changes in your opinion are important to your organization in the *near / distant future* in order to make it work better?
- 21) What did you learn from customs and finance (accounting) experience? How would you compare the present situation with before?
- 22) What impact has finance and accounting information had on your career/ career prospects?

- Personal institutions
- Routines
- Capabilities and motivations

23) Where accounting systems and/or practices fit in with your career plan?

• **(Management) Accounting Systems:**

1. What are the existing (management) accounting systems and practices, especially budgeting systems? What were the previous systems?
2. What have been the changes in management accounting systems? What changes are taking place? What changes do you anticipate in management accounting systems? What would you think of them?
3. What have been the pressures to change management accounting systems? What are the pressures to change MAS? What pressures do you think may change management accounting systems in the future?
4. Are any departments other than the accounting department responsible for providing financial or non-financial information to management?
5. What are the perceived purposes of these systems or practices?
6. Are there any internal pressures (power) or desire to amend these purposes?
7. How do JCO managers use the management accounting information?
8. What accounting reports do JCO managers receive regularly, and how do they use them? Do they use this information in performance evaluation and decision-making?
9. How satisfied are managers with current management accounting systems? Are the various accounting reports useful? Have they included and provided all required information?
10. What changes led to the improvement of the system and made the accounting function more useful to managers and other decision-makers?
11. What is happening in the information technology market (in JCO, Government and Jordan)?
12. What is the nature of the relationship between JCO and the Ministry of Finance from one side, and the Jordanian government from another side? Does JCO periodically need to provide financial data for both?

• **Budgeting Systems (ROB and GFMS):**

1. What significant accounting innovations or changes in the planning and budgeting systems and practices over the past years were carried out in the JCO?
2. Description of the present budgeting system;
3. Description of the previous budget system;
4. Why did JCO change its budgeting system?
5. Why did JCO adopt the new budgeting system?
6. How was ROB implemented? Did JCO implement ROB on its own? Did it receive regulations from the government? And did it take advice from a consultancy firm?
7. How has the change emerged? Or how has the need for change emerged?
8. What is the source of budgeting system or change? Or what external parties have influenced this change?
9. Have any economic and political influences led to change?
10. Who is (are) behind the introduction of the new system?
11. Who is (are) responsible for the implementation of the new system?

12. How has your organization acquired the type of budgeting system it currently uses? Or what procedures has the organization followed to acquire this type of system? And how has it developed over time?
13. Have there been any changes in actual practices, procedures and reports? What are they?
14. What procedures were followed by the General Director or CFO to enact and implement the new system, which comes from the environment inside the organization?
15. What factors/considerations (or perhaps persons or agencies) played a role in the decision to encode and enact ROB system as well as GFMIS?
16. What is the mechanism for preparing the budgeting system? How is it linked with the central budgeting system?
17. What practices of the budgeting system are used in the JCO? Has the change in budget purpose led to change in actual practice (change from traditional emphasis to outcomes emphasis)?
18. What uses of the ROB and GFMIS systems are made by JCO's managers?
19. How satisfied are managers with the practices or methods for preparing the budget?
20. How different is ROB data from those provided by the previous budgeting system? Do managers really use this information? Who does use it most within the JCO?
21. Strengths and weaknesses of the ROB system as perceived by managers?
22. How have the changes improved the present methods of preparing the budget?
23. What obstacles stand in the way of improvements to preparing the budget?
24. Is there a relationship between the budget and organizational strategic objectives? How does it work?
25. Is there a relationship between the budget and other management accounting systems and technology (e.g. ASYCUDA)? How does it work?
26. Does the system need new ways of thinking and doing things in the JCO?
27. Is there any resistance to the new system? How was the resistance shown? Is the resistance:
 - A. Formal and overt?
 - B. Due to lack of knowledge?
 - C. Due to the mental allegiance to specific ways of thinking and doing things?
28. How has the main actor (e.g. General Director or CFO) behaved to ensure implementation of the new system in the face of resistance or conflict?
29. Did the top manager or any other subordinates use their power to encode and enact the new system? What was the mechanism of mobilizing the power?
30. How has the change in organizational structure and technology affected accounting practices within the organization?
31. What other changes have occurred in the JCO's financial management besides budgeting system changes?

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الحمد لله الواحد القهار، مصرف الأقدار، الذي مَن علي وفضل وهو سبحانه القائل:

(وَمَا تَشَاءُونَ إِلَّا أَنْ يَشَاءَ اللَّهُ رَبُّ الْعَالَمِينَ) - سورة التكويد ٢٩